CHINA EASTERN AIRLINES CORP LTD
Form 20-F
June 29, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14550

(Exact Name of Registrant as Specified in Its Charter)

China Eastern Airlines Corporation Limited	The People's Republic of China
(Translation of Registrant's Name Into English)	(Jurisdiction of Incorporation or Organization)

Kong Gang San Lu, Number 88,
Shanghai, 200335
People's Republic of China
Tel: (8621) 6268-6268
Fax: (8621) 6268-6116
(Address and Contact Details of the Board Secretariat's Office)

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, 2010, 7,782,213,860 Ordinary Domestic Shares, par value RMB1.00 per share, were issued and outstanding, and 3,494,325,000 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. Each American Depositary Share represents 50 Ordinary H Shares.

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

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 þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No þ

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 þ	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 o	International Financial Reporting Standards as issued by the International Accounting Standards Board þ	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 o No þ

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 Airlin Corporation Limited, a joint stock limited company incorporated under the laws of the PRC on April 14, 1995, and our subsidiaries (collectively, the "Group"), 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, Taiwan, or the Macau Special Administrative Region of China, or Macau.

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;
- the impact of macroeconomic fluctuations (including the fluctuations of oil prices, interest and exchange rates);
- certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;
- our expansion plans, including possible acquisition of other airlines;
- our marketing plans, including the establishment of additional sales offices;
- our plan to add new pilots;
- our plan to expand cargo operations; 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", "ou "plan", "potential", "predict", "project", "seek", "should", "will", "would", and similar expressions, as they relate to our Comp 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 development of the high-speed rail network in the PRC;
- the introduction of the Emissions Trading System of the European Union (the "Emissions Trading System");
- 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

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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

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, 2008, 2009 and 2010 and the selected financial data from the balance sheets as of December 31, 2006, 2007, 2008, 2009 and 2010 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, or 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, 2008, 2009 and 2010 and the consolidated balance sheets as of December 31, 2009 and 2010 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 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,				
	2006	2007	2008	2009	2010
	RMB	RMB	RMB	RMB	RMB
	(in millions, except per share or per ADS data)				
Consolidated Income Statement Data (IFRS):					
Revenues	37,557	42,534	41,073	38,990	73,804
Other operating income and gains	424	488	672	1,288	658
Operating expenses	(40,695)	(42,894)	(56,828)	(38,456)	(68,765)
Operating profit / (loss)	(2,714)	128	(15,083)	1,821	5,697
Finance income / (costs), net	(757)	162	(267)	(1,549)	(347)
Profit / (loss) before income tax	(3,338)	378	(15,256)	249	5,418
Profit / (loss) for the year attributable to owners of the parent	(3,035)	379	(15,269)	169	4,958
Basic and fully diluted earnings / (loss) per share(1)	(0.62)	0.08	(3.14)	0.03	0.44
Basic and fully diluted earnings / (loss) per ADS	(62.35)	7.78	(313.72)	2.63	22.24

	As of December 31,				
	2006	2007	2008	2009	2010
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Consolidated Balance Sheet Data (IFRS):					
Cash and cash equivalents	1,987	1,655	3,451	1,735	3,078
Net current liabilities	(24,588)	(26,098)	(43,458)	(28,648)	(27,184)
Non-current assets	51,725	57,949	62,652	64,988	91,254
Long term borrowings, including current portion	(14,932)	(14,675)	(15,628)	(16,928)	(27,373)
Obligations under finance leases, including current portion	(11,949)	(16,452)	(20,809)	(19,370)	(19,208)
Total share capital and reserves attributable to the parent	2,534	2,361	(13,097)	1,235	15,271
Non-current liabilities	(24,059)	(28,540)	(27,597)	(30,230)	(37,377)
Total assets less current liabilities	27,538	32,153	16,204	36,341	64,069

(1) The calculation of earnings/(loss) per share for 2006, 2007 and 2008 are based on the consolidated profit/(loss) attributable to the owners of the parent and 4,866,950,000 shares in issue. The calculation of earnings per share for 2009 is based on the consolidated profit attributable to the owners of the parent divided by the weighted average number of shares of 6,436,828,000. The calculation of earnings per share for 2010 is based on the consolidated profit attributable to the owners of the parent divided by the weighted average number of 11,149,426,000 ordinary shares outstanding.

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. Unless otherwise noted, all translations from RMB to U.S. dollars, from Hong Kong dollars to U.S. dollars, from U.S. dollars to RMB and from U.S. dollars to Hong Kong dollars in this Annual Report were made at the rate of RMB6.60 to US$1.00 and HK$7.78 to US$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Board on December 31, 2010. 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 PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

On June 24, 2011, the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board were RMB6.47=US$1.00 and HK$7.79=US$1.00. The following table sets forth information concerning exchange rates between the RMB, Hong Kong dollar and the U.S. dollar for the periods indicated. The source of these rates is the Federal Reserve Statistical Release.

	RMB per US$1.00(1)		HK$ per US$1.00(1)	
	High	Low	High	Low
November 2009	6.8300	6.8255	7.7501	7.7495
December 2009	6.8299	6.8244	7.7572	7.7495
January 2010	6.8295	6.8258	7.7752	7.7539
February 2010	6.8370	6.8258	7.7716	7.7619
March 2010	6.8254	6.8270	7.7648	7.7574
April 2010	6.8275	6.8229	7.7675	7.7565
May 2010	6.8310	6.8245	7.8030	7.7626
June 2010	6.8296	6.8268	7.7935	7.7906
July 2010	6.7807	6.7714	7.7962	7.7651
August 2010	6.8069	6.7670	7.7788	7.7605
September 2010	6.8102	6.6869	7.7738	7.7561
October 2010	6.6912	6.6397	7.7648	7.7515
November 2010	6.6892	6.6330	7.7656	7.7501
December 2010	6.6745	6.6000	7.7833	7.7612
January 2011	6.6364	6.5809	7.7978	7.7683
February 2011	6.5965	6.5520	7.7957	7.7823
March 2011	6.5743	6.5483	7.8012	7.7750
April 2011	6.5477	6.4900	7.7784	7.7669
May 2011	6.5073	6.4786	7.7855	7.7652
June 2011 (up to June 24, 2011)	6.4830	6.4628	7.7976	7.7767

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 the periods indicated. For all periods prior to January 1, 2009, the exchange rate refers to the noon buying rate as reported by the Federal Reserve Bank of New York. For periods beginning on or after January 1, 2009, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board.

	RMB per US$1.00(1)	HK$ per US$1.00
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814
2009	6.8307	7.7513
2010	6.7603	7.7692

Source: Federal Reserve Statistical Release

(1) Annual averages were calculated by using the average of the exchange rates on the last day of each month during the relevant year. Monthly averages are calculated by using the average of the daily rates during the relevant month.

Selected Operating Data

The following table sets forth certain operating data of our Company for the five years ended December 31, 2010, 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,				
	2006	2007	2008	2009	2010
Selected Airline Operating Data:					
Capacity:					
ATK (millions)	11,065.6	12,085.9	11,642.2	12,505.5	17,887.4
ASK (millions)	70,468.3	77,717.2	75,964.3	84,456.4	119,450.9
AFTK (millions)	4,723.4	5,091.3	4,805.4	4,904.5	7,136.8
Traffic:					
Revenue passenger-kilometers (millions)	50,271.9	57,182.6	53,785.3	60,942.1	93,152.8
Revenue tonne-kilometers (millions)	6,931.0	7,713.9	7,219.0	7,908.7	12,599.0
Revenue passenger tonne-kilometers (millions)	4,487.0	5,099.8	4,798.9	5,434.5	8,290.5
Revenue freight tonne-kilometers (millions)	2,444.0	2,614.1	2,420.1	2,474.2	4,308.5
Kilometers flown (millions)	434.6	478.1	467.0	515.2	743.89
Hours flown (thousands)	678.3	756.0	755.2	838.3	1,195.1
Number of passengers carried (thousands)	35,039.7	39,161.4	37,231.5	44,043.0	64,930.4
Weight of cargo carried (millions of kilograms)	893.2	940.1	889.5	943.9	1,464.9

	Year Ended December 31,				
	2006	2007	2008	2009	2010
Average distance flown (kilometers per passenger)	1,434.7	1,460.2	1,444.6	1,383.7	1,434.7
Load Factor:					
Overall load factor (%)	62.6	63.8	62.0	63.2	70.4
Passenger load factor (%)	71.3	73.6	70.8	72.2	78.0
Break-even load factor (based on ATK) (%)	71.1	67.7	90.7	66.0	67.5
Yield and Cost Statistics (RMB):					
Passenger yield (passenger revenue/ passenger-kilometers)	0.61	0.62	0.62	0.54	0.63
Cargo yield (cargo revenue/cargo tonne-kilometers)	2.30	2.10	2.21	1.67	1.95
Average yield (passenger and cargo revenue/ tonne- kilometers)	5.20	5.27	5.38	4.67	5.35
Unit cost (operating expenses/ATK)	3.70	3.57	4.88	3.08	3.61

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to the PRC

Changes in the Economic Policies of the PRC government may materially and adversely affect our financial condition and results of operations.

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.

Foreign exchange regulations in the PRC may affect our ability to pay any dividends or to satisfy our foreign exchange liabilities.

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, if any, or satisfy our foreign exchange liabilities.

Fluctuations in exchange rates may have a material adverse effect on our business, financial condition and results of operations.

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 7.0% in 2008. While there was no material appreciation of the value of Renminbi against the U.S. dollar in 2009, the value of the Renminbi against the U.S. dollar appreciated by approximately 3.0% in 2010. 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 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. As of December 31, 2010, our total interest-bearing liabilities denominated in foreign currencies converted to Renminbi amounted to RMB57,774 million, of which the US dollar liabilities accounted for 67.2%. Therefore, in circumstances with large fluctuations in exchange rates, the exchange loss arising on the translation of foreign currency denominated liabilities will be greater, which in turn affects our profitability and development. We usually use hedging contracts for foreign currencies to reduce the risks in exchange rates for foreign currency revenue from ticket sales and expenses which are to be paid in foreign currencies. Foreign currency hedging mainly involves the sales of Japanese Yen or the purchase of US dollars at fixed exchange rates. As of December 31, 2010, the foreign currency hedging contracts, of which 48 are forward contracts, held by us which are still open amounted to a notional amount of US$48 million (December 31, 2009: US$82 million), which will expire between 2011 and 2017.

Our Group recorded a increase in net exchange gains during the reporting period. As of December 31, 2009 and 2010, our Group's exchange gains were RMB95 million and RMB1,075 million, respectively. Due to the large value of existing net foreign currency liabilities denominated in U.S. dollars, the Group's results will be adversely affected if the Renminbi depreciates against the US dollar or the rate of appreciation of the Renminbi against the US dollar decreases in the future.

Our operations may be affected by rising inflation rates within the PRC.

Inflation rates within the PRC have been on a sharp uptrend in recent years. The PRC government has taken numerous monetary tightening measures, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down economic growth and control price rises. Increasing inflationary rates are due to many factors beyond our control, such as rising food prices, rising production and labour costs, high lending levels, PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. We cannot assure you that inflationary trends will not continue to rise in the future. If inflation rates rise beyond our expectations, the costs of our business operations may become significantly higher than we have anticipated, and we may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increasing operating costs. As a result, further inflationary pressures within the PRC may have a material adverse effect on our business, financial condition and results of operations, as well as our liquidity and profitability.

Any withdrawal of, or changes to, tax incentives in the PRC may adversely affect our results of operations and financial condition.

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. Since January 1, 2010, our revenue from the provision of international transportation services have been exempted from business tax, in accordance with a notice jointly issued by the PRC finance and tax authorities. To the extent that there are any withdrawals of, or changes in, our preferential tax treatment or tax exemptions from which we benefit, or increases in the applicable effective tax rate, our tax liability may increase correspondingly.

Uncertainties embodied in the PRC legal system may limit certain legal protection available to investors.

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 investors. Such uncertainties arise as the legal system in the PRC is continuing to evolve. Even where adequate laws exist in the PRC, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited as reference but have limited roles as precedents. As such, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention. We have full or majority board control over the management and operation of all of our subsidiaries established in the PRC. The control over these PRC entities and the exercise of shareholder rights are subject to their respective articles of association and PRC laws applicable to foreign-invested enterprises in the PRC, which may be different from the laws of other developed jurisdictions.

The PRC has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. The relative inexperience of the PRC's judiciary in many cases also creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation, implementation and enforcement of these laws and regulations involve uncertainties due to the lack of established practice available for reference. We cannot predict the effect of future legal development in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and national law. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have retroactive effect. As a result, we may not be aware of a violation of these policies and rules until sometime after the violation has occurred. This may also limit the remedies available to investors and to us in the event of any claims or disputes with third parties.

Risks Relating to the Aviation Industry

Our business is subject to extensive 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;
- air carrier certifications and air operator certification; and
- aircraft registration and aircraft airworthiness certification.

Our ability to provide services on international routes is subject to a variety of bilateral civil air transport agreements between China and other countries, international aviation conventions and local aviation laws. As a result of government regulations, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

Our operations are dependent on Chinese aviation infrastructure, which is currently under development and may be insufficient.

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.

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Our results of operations tend to be volatile and fluctuate due to seasonality.

Our operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for our flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. In particular, our airline revenue is generally higher in the second and third quarters than in the first and fourth quarters. As a result, the Company's results tend to be volatile and subject to rapid and unexpected change.

Limitations on foreign ownership of PRC airline companies may affect our access to capital markets finding or business opportunities.

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. As of December 31, 2010, approximately 30.99% of our total outstanding shares were held by non-Chinese, Hong Kong, Macau or Taiwan residents or legal entities (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.

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.

The availability, price volatility and cost of jet 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 of certain countries, including 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. The fuel efficiency of our aircraft decreases as they advance in age which results in an overall increase in our aviation fuel costs. These and other factors that impact the global supply and demand for aviation 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 2010, accounted for approximately 31.42% of our total operating costs. We generally alleviate the pressure from the rise in operating costs arising from the increase in aviation fuel by imposing fuel surcharges which, however, are subject to government regulations. In order to control fuel costs, we also enter 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 during previous years. In 2010, we did not enter into any new crude oil option contracts, and those signed in past years will be settled by December 31, 2011. We may not be able to successfully manage our exposure to changes in fuel prices through the use of these derivative transactions.

From 2009 to 2010, our fuel expenses increased by 76.3%, partially as a result of the expansion of our scale of operations and an increase of 20% in the average weighted price of jet fuel in 2010 compared to 2009. Jet fuel prices were volatile in early 2011, with the political instability and turmoil in certain Middle Eastern countries, as well as the natural disaster in Japan. As such, we cannot assure you that jet fuel prices will not further fluctuate in the future. 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 jet fuel costs we may encounter in the future.

The airline industry is subject to increasing environmental regulations, which lead to increased costs and affect profitability.

In recent years, regulatory authorities in China and other countries have issued a number of directives and other regulations to address, among other things, aircraft noise and aircraft engine emissions, the use and handling of hazardous materials, aircraft age and environmental contamination clean-up. These requirements impose high fees, taxes and substantial ongoing compliance costs on airlines, particularly as new aircraft brought into service will have to meet the environmental requirements during their entire service life. In addition, the European Commission has indicated that the Emissions Trading System will apply to the airline industry from 2012, which will require airlines flying into, out of and within the European Union to pay for any emissions that exceed a defined cap. We expect to continue to incur expenditures on an ongoing basis to comply with environmental regulations. Furthermore, compliance with environmental regulations could restrict our ability to modify or expand facilities or continue operations, or could require us to install costly pollution control equipment or incur other significant expenses, including remediation costs.

We operate in a highly competitive industry.

We face intense competition in each of the domestic, regional and international markets that we serve. In our domestic markets, we compete against all airline companies that have the same routes, including 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 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.

Risks Relating to the Company

We utilize fuel hedging arrangements which may result in losses.

As protection against increases in fuel prices, we from time to time hedge a portion of our future fuel requirements through various financial derivative instruments linked to certain fuel commodities to lock in fuel costs within a hedged price range. While we have not entered into any new fuel hedging contracts since the beginning of 2009 due to a change in PRC government regulations which requires prior approval from the PRC government before we can enter into fuel hedging contracts, we are in the process of seeking such approval from the PRC government and it is possible that we may enter into fuel hedging contracts in the future. For the years ended December 31, 2009 and 2010, we hedged 52.6% and 28.2%, respectively, of our annual fuel consumption in these years. 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. 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.

Our indebtedness and other obligations may have a material adverse effect on our liquidity and operations.

We have a substantial amount of debt, lease and other obligations, and will continue to have a substantial amount of debt, lease and other obligations in the future. During a period of time between the end of 2008 and April 2009, the amount of our total liabilities exceeded our total assets. As of December 31, 2010, our total liabilities were RMB86,772 million and our accumulated losses were RMB12,956 million. As of the same date, our current liabilities exceeded our current assets by RMB27,184 million. Our total bank borrowings amounted to RMB38,566 million and our short-term bank loans outstanding totaled RMB11,193 million as of December 31, 2010. In addition, we added a total of 25 aircraft to our fleet, by purchase or finance lease (excluding operating lease) in 2010, including 14 A320 aircraft, three A321 aircraft, five B737-700 and three B737-800 aircraft. See the section headed "Item 4. Information on the Company — Property, Plant and Equipment — Fleet." Our substantial indebtedness and other obligations could materially adversely affect our business and operations, including requiring us to dedicate additional cash flow from operations to the payment of principal and interest on indebtedness, thereby reducing the funds available for operations, maintenance and service improvements and future business opportunities, increasing our vulnerability to economic recessions, reducing our flexibility in responding to changing business and economic conditions, placing us at a disadvantage when compared to competitors that have less debt, limiting our ability to arrange for additional financing for working capital, capital expenditures and other general corporate purposes, at all or on terms that are acceptable to us and limiting our ability to satisfy payment of our existing indebtedness and other obligations under our indebtedness.

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 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, our credit rating and investor perception of the aviation industry, 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.

We are subject to interest rate fluctuation risk.

Out total interest-bearing liabilities (including long-term and short-term loans and finance leases payable) as of December 31, 2009 and 2010 were RMB44,705 million and RMB57,774 million, respectively, of which short-term liabilities accounted for 32.3% and 30.0%, respectively, and part of the long-term interest-bearing liabilities were liabilities with variable interest rates. Both were affected by the fluctuation in current market interest rates.

Our interest-bearing liabilities were mainly denominated in U.S. dollars and Renminbi. As of December 31, 2009 and 2010, our liabilities denominated in U.S. dollars accounted for 68.8% and 67.2%, respectively, of our total liabilities, while liabilities denominated in Renminbi accounted for 30.9% and 31.0%, respectively, of our total liabilities. Fluctuations in U.S. dollar and Renminbi interest rates have significantly affected our financing costs. A substantial majority of our borrowings denominated in Renminbi are linked to benchmark five-year lending rates published by the PBOC. From April 2006 to December 2007, the PBOC raised the benchmark five-year lending rate seven times from 6.39% to 7.83%. Beginning in September 2008, the PBOC decreased the benchmark five-year lending rate five times from 7.83% to 5.94% in December 2008. Since then, the PBOC has raised the benchmark five-year lending rate four times from 5.94% to 6.8% in April 2011.A substantial majority of our borrowings denominated in U.S dollars are linked to floating LIBOR rates which decreased overall in 2010. However, the relevant lending rates may increase in the future as a result of reasons beyond our control, and may result in an adverse affect our business, prospects, cash flows, financial condition and results of operations. In addition, we expect to issue bonds and notes or enter into additional loan agreements and aircraft leases in the future to fund our operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates.

We may not be able to secure future financing at terms acceptable to us or at all.

We require significant amounts of external financing to meet our capital commitments for acquiring and upgrading aircraft and flight equipment and for other general corporate needs. As of December 31, 2010, we had total credit facilities of RMB47.03 billion from various banks, of which RMB30.72 billion are not utilized, and expect to roll over these bank facilities in future years. In addition, we generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained guarantees from 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 roll over our bank facilities or continue to obtain bank guarantees in the future. The unavailability of credit facilities or guarantees from Chinese banks or the increased cost of such guarantees may materially and adversely affect our ability to borrow additional funds or enter into international aircraft lease financings or other additional financing on acceptable terms. Although we have secured financing for our aircraft scheduled for delivery in 2010, we are still in the process of obtaining financing for some aircraft we have scheduled for delivery in future years. In addition, if we are not able to arrange financing for our aircraft on order, we may seek to defer aircraft deliveries or use cash from operating or other sources to acquire the aircraft.

Our ability to obtain financing may also be impaired by our financial position, our leverage and our credit rating. In addition, factors beyond our control, such as recent global market and economic conditions, volatile oil prices, and the tightening of credit markets may result in a diminished availability of financing and increased volatility in credit and equity markets, which may materially adversely affect our ability to secure financing at reasonable costs or at all. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to expand our operations, purchase new aircraft, pursue business opportunities we believe to be desirable, withstand a continuing or future downturn in our business, or respond to increased competition or changing economic conditions 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.

Our controlling shareholder, CEA Holdings, holds a majority interest in our Company, and its interests may not be aligned with other shareholders.

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 42.84% 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.

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.

The continued effects of the global recession could affect air travel.

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of domestic and global economies. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. In 2008 and 2009, the economies of the United States, Europe and certain countries in Asia experienced a severe and prolonged recession and China experienced a slowdown in overall economic growth, which led to a reduction in economic activity. As a result, we continued to experience significantly weaker demand for air travel, especially internationally, in 2009. To respond to this external environment, we reduced our international flights and reallocated our capacity by focusing more on the domestic market. Although international air travel generally recovered in 2010 due to the gradual global economic recovery, ongoing events such as the continued instability of European financial markets, as well as recent events such as the political instability and turmoil in certain Middle Eastern countries and the natural disasters in Japan in early 2011 may adversely affect economic activity and financial markets, which would have an overall effect on international air travel, or may weaken demand for air travel to and from those areas. The risk remains that the global economy, including the PRC economy, may continue to suffer the continued effects of the global recession and the PRC government may have to readjust its macroeconomic control measures accordingly, causing the growth or demand for our air transport services to slow down, which may negatively affect our business, financial condition and results of operations. In addition, while the PRC government instituted certain initiatives in 2008 and 2009 in response to the slowdown in the PRC economy, a rapid increase in liquidity in the market as a result of fiscal stimulus measures resulted in the PRC government implementing a number of measures to control such increase, including raising interest rates, in the second quarter of 2010. These foregoing factors and any further declines in economic activity may reduce domestic or international demand and the speed at which domestic or international capacity grows may slow down significantly, which would have a material adverse effect on our revenues, results of operations and liquidity. For example, our cargo business is highly dependent upon servicing the logistics needs of the semi-conductor industry. A slowdown in this sector could adversely affect this segment of our business.

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, and landing and infrastructure fees which are set by government authorities and not within our control, 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.

We may suffer losses in the event of an accident or incident involving our aircraft or the aircraft of any other airline.

An accident or incident involving one of our aircraft could require repair or replacement of a damaged aircraft, its consequential temporary or permanent loss from service and/or significant liability to injured passengers and others. Although we believe that we currently maintain liability insurance in amounts and of the types generally consistent with industry practice, the amounts of such coverage may not be adequate to fully cover the costs related to the accident or incident, which could result in harm to our results of operations and financial condition. In addition, any aircraft accident or incident, even if fully insured, could cause a public perception that we are not as safe or reliable as other airlines, which would harm our competitive position and result in a decrease in our operating revenues. Moreover, a major accident or incident involving the aircraft of any of our competitors may cause demand for air travel in general to decrease, which would adversely affect our results of operations and financial condition.

Our insurance coverage and costs have increased substantially, and could have an adverse effect on our operations.

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. In response to the reduced insurance coverage from aviation insurers, the PRC government has provided insurance coverage to PRC airlines for third party war liability claims. Such insurance provided by the government is subject to annual review and approval by the government. We renew our insurance policies on a yearly basis and are currently insured through November 30, 2011. 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 and/or if the PRC government declines to renew our insurance coverage, our financial condition and results of operations may be materially and adversely affected.

We may not obtain or be allocated sufficient direct flights between mainland China and Taiwan, which may adversely affect our business and results of operations.

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 and 370 regular direct flights per week in 2009 and 2010, respectively. Mainland China and Taiwan agreed to increase flight destinations for air links between the two sides in mainland China to 33 airports in various PRC cities in 2010, while flight destinations in Taiwan continued to include eight airports. On June 12, 2011, the two sides agreed to increase the total number of flights to 558 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. 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. Although, as of December 31, 2010 we operated approximately 103 flights per week and are one of 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 expect to face substantial competition from the rapid development of the Chinese rail network.

The PRC government is aggressively implementing the expansion of its high-speed rail network, which will provide train services at a speed of up to 350km per hour connecting major cities such as Beijing, Shanghai, Wuhan, Qingdao, Guangzhou, Dalian and Hong Kong. The expansion of the coverage of this network and improvements in railway service quality, increased passenger capacity and stations located closer to urban centers than competing airports could enhance the relative competitiveness of the railway service and affect our market share on some of our key routes, in particular our routes of between 500 to 800km. Increased competition and pricing pressures from railway service may have a material adverse effect on our financial condition and results of operations.

We engage in related party transactions, which may result in 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.

We may experience difficulty integrating our acquisitions, which could result in a material adverse effect on our operations and financial condition.

We may from time to time expand our business through acquisitions of airline companies or airline-related businesses. For example, we acquired certain selected assets and liabilities relating to the aviation businesses of CEA Northwest and CEA Yunnan in 2005 as well as equity interests in CEA Wuhan in 2006. In addition, we entered into an agreement with Shanghai Airlines Co., Ltd. (“Shanghai Airlines”) on July 10, 2009 to issue a maximum of 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. The acquisition price was RMB9,118 million, which was determined based on the quoted market price of our shares issued as of the date nearest to the acquisition date, with adjustments to reflect specific restrictions to certain shares that were issued. On January 28, 2010, we completed the exchange of 1,694,838,860 A Shares for all existing issued shares of Shanghai Airlines. In addition, on December 20, 2010, our subsidiary, China Cargo Airlines, entered into separate acquisition agreements with Great Wall Airlines and Shanghai Cargo Airlines to acquire each carrier's cargo business and related assets. China Cargo Airlines also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. These acquisitions and the acquisition of Great Wall Airlines have obtained the approval from CAAC, NDRC, and MOC, and were completed on June 1, 2011. We are devoting significant resources to the integration of our operations in order to achieve the anticipated synergies and benefits of the absorption and acquisitions. See “Item 4. Information on the Company” for details.

Such acquisitions involve uncertainties and a number of risks, including:

- difficulty with integrating the assets, operations and technologies 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;
- complying with the laws, regulations and policies that are applicable to the acquired businesses;
- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airline companies or airline-related businesses;
- managing relationships with employees, customers and business partners during the course of integration of new businesses;
- attracting, training and motivating members of our management and workforce;
- accessing our debt, equity or other capital resources to fund acquisitions, which may divert financial resources otherwise available for other purposes;
- diverting significant management attention and resources from our other businesses;
- strengthening our operational, financial and management controls, particularly those of our newly acquired assets and subsidiaries, to maintain the reliability of our reporting processes;
- difficulty with exercising control and supervision over the newly acquired operations, including failure to implement and communicate our safety management procedures resulting in additional safety hazards and risks;
- increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airline companies or airline-related businesses; and
- the risk that any such acquisitions may not complete due to failure to obtain the required government approvals.

We cannot assure you that we will not have difficulties in assimilating the operations, technologies, services and products of newly acquired companies or businesses. Moreover, the continued integration of Shanghai Airlines and other acquisitions into our Company depends significantly on integrating the pre-absorption Shanghai Airlines and other acquired employee groups with our employee groups and on maintaining productive employee relations. In the event that we are unable to efficiently and effectively integrate newly acquired companies or airline-related businesses into our Company, 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.

We may not be able to accurately report our financial results or prevent fraud if we fail to maintain effective internal controls over financial reporting, resulting in adverse investor perception, which in turn could have a material adverse effect on our reputation and the performance of our shares and ADRs.

We are required under relevant United States securities rules and regulations to disclose in the reports that we file or submit under the Exchange Act to the United States Securities and Exchange Commission, including our annual report on Form 20-F, a management report assessing the effectiveness of our internal control over financial reporting as of the end of the fiscal year. Our registered public accounting firm is also required to provide an attestation report on the effectiveness of our internal controls over financial reporting. Our management concluded that our internal controls over financial reporting were effective as of December 31, 2010. However, we may discover other deficiencies or material weaknesses in the course of our future evaluation of our internal controls over financial reporting and we may be unable to address and rectify such deficiencies in a timely manner. Any failure to maintain effective internal controls over financial reporting could lead to a decline in investor confidence in the reliability of our financial statements, thereby adversely affecting our business, operations, and reputation, including negatively affecting our market performance in the securities markets and decreasing potential opportunities to obtain financing in the capital markets.

During the year ended December 31, 2010, we completed the merger with Shanghai Airlines, which substantially increased our business scale. We have also adopted various measures for the internationalization of our business and to enhance our competitiveness in the international long-distance flight routes. Due to the differences in certain legal and market environments, we have encountered certain challenges during the course of developing our overseas business. We have also discovered that an individual overseas sales department had certain deficiencies in implementing its internal controls. We have already adopted and will continue to implement measures in order to enhance the internal control of our overseas offices and to ensure the continued development of our overseas business.

We are currently involved in legal proceedings, the outcome of which is uncertain.

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. In July 2007, the Superior Court of the State of California ordered the action stayed on the grounds of forum non conveniens in order to permit proceedings in the PRC. In February 2009, the Court of Appeal of California dismissed the plaintiffs' appeal and affirmed the original order. On March 16, 2009, the plaintiffs sued the Company in the Beijing No. 2 Intermediate People's Court. Legal documents including summons, prosecution notifications and others have been served on the Company, although the trial has not yet begun as of the date of this Annual Report. We cannot assure you that the court will rule in favor of our Company with respect to the procedure or substance of the litigation, or what amount of damages may be assessed against us should the court find in favor of the plaintiffs.

Any failure or disruption of our computer, communications, flight equipment or other technology systems could have an adverse impact on our business operations, profitability, reputation and customer services.

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 assure you 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/or delays in our flights, and could have an adverse impact on our business operations, profitability, reputation and customer services, including resulting in liability on our part to pay compensation to customers.

Terrorist attacks or the fear of such attacks, even if not made directly on the airline industry, could negatively affect the Company and the airline industry as a whole. The travel industry continues to face on-going security concerns and cost burdens.

The aviation industry as a whole has been beset with high-profile terrorist attacks, most notably on September 11, 2001 in the United States. The CAAC has also implemented increased security measures in relation to the potential threat of terrorist attacks. Terrorist attacks, even if not made directly towards us or on the airline industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated threat warnings or selective cancellation or redirection of flights) could materially and adversely affect us and the airline industry. In addition, potential or actual terrorist attacks may result in substantial flight disruption costs caused by grounding of fleet, significant increase of security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and revenue per revenue passenger kilometer.

Interruptions or disruptions in service at one or more of our primary market airports could have an adverse impact on us.

Our business is heavily dependent on our operations at our primary market airports in Shanghai, namely, Hongqiao International Airport, Pudong International Airport and our regional hub airports in Xi'an and Kunming. Each of these operations includes flights that gather and distribute traffic from markets in the geographic region around the primary market to other major cities. A significant interruption or disruption in service at one or more of our primary market airports could adversely impact our operations.

Any adverse public health developments, including SARS, avian flu, or influenza A (H1N1), or the occurrence of natural disasters 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.

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 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) in 2009, a highly contagious acute respiratory disease, were 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, epidemic such as the recent outbreak of the deadly E.coli bacteria in Germany or another outbreak of SARS or avian flu may have on our business.

Natural disasters, such as earthquakes, snowstorms, floods or volcanic eruptions such as that of Eyjafjallajökull in Iceland in April and May of 2010 and the natural disasters in Japan in early 2011 may disrupt or seriously affect air travel activity. Any period of sustained disruption to the airline industry may have a material adverse effect on our business, financial condition and results of operations.

Impairments charges for property, plant and equipment may have a material adverse effect on our financial condition and results of operations.

In accordance with 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 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 of the balance sheet date which was primarily determined by reference to estimated market value, we made an additional impairment loss of RMB239 million against certain aircraft and related flight equipment which have been classified as “non-current assets held for sale”.

We may 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 assure you that a material impairment charge of tangible or intangible assets, such as the additional goodwill acquired upon our absorption of Shanghai Airlines, 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 condition and results of operations in the period of recognition.

We may be unable to retain key management personnel.

We are dependent on the experience and industry knowledge of our key management employees, and there can be no assurance that we will be able to retain them. Any inability to retain our key management employees, or attract and retain additional qualified management employees, could have a negative impact on us.

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 International Airport, Shanghai, China, 200335, and our mailing address is Kong Gang San Lu, Number 88, Shanghai, 200335, China. The telephone number of our principal executive office is (86-21) 6268-6268 and the fax number for the Board Secretariat's office is (86-21) 6268-6116. 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 2010, our Company's total revenue from core operations accounted for approximately 93.6% of CEA Holding's total revenue. The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of June 29, 2011:

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. 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. For information regarding our share capital structure, see "Item 10.B Memorandum and Articles of Association – Description of Shares." 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. In addition, we purchased from EA Group the assets and liabilities relating to airline operations of China General Aviation Company. 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 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.

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 and serves primarily the southwestern region of China.

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 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 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.

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 were 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 were also able to enjoy the privileges of being a market development participant of the World Expo.

On December 10, 2008, we entered into an A Share Subscription Agreement with CEA Holding for CEA Holding to subscribe for new A shares to be issued by our Company, and entered into an H Share Subscription Agreement with CES Global for CES Global to subscribe for new H shares to be issued by our Company. Both of these agreements were amended on December 29, 2008. Under the amended agreements, we agreed to issue 1,437,375,000 new A shares to CEA Holding and 1,437,375,000 new H shares to CES Global for an agreed-upon subscription price. On February 26, 2009, we received the approval for the non-public issuances of the A and H shares in a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders. We completed the issuances of 1,437,375,000 new A Shares to CES Holding and 1,437,375,000 new H shares to CES Global on June 25, 2009 and June 26, 2009, respectively. See "Item 7.B. Related Party Transactions – Subscription Agreements with CEA Holding and CES Global."

On July 10, 2009, our Board approved an issuance of 1,350,000,000 new A shares of the Company to a limited number of specific investors, including CEA Holding, and the issuance of 490,000,000 new H shares of the Company to CES Global. The issuances of the A shares and H shares were completed on December 23, 2009 and December 10, 2009, respectively. See "Item 7.B. Related Party Transactions – Subscription Agreements with CEA Holding and CES Global."

On July 10, 2009, we entered into an absorption agreement with Shanghai Airlines in relation to the proposed acquisition of Shanghai Airlines. The proposed acquisition was approved in a shareholders meeting of our Company on October 9, 2009. On December 30, 2009, we received approval of our proposed acquisition of Shanghai Airlines from the China Securities Regulatory Commission, or the CSRC. On January 28, 2010, we issued 1,694,838,860 A shares to the shareholders of Shanghai Airlines in exchange for all existing issued shares of Shanghai Airlines. In 2010, we integrated the operations of Shanghai Airlines by undertaking and completing various post-acquisition administrative measures, such as the transfer and registration of properties and other assets, as well as the integration of each respective airline's frequent flyer mileage programs. As of the filing date, certain post-acquisition measures are still in progress. Because our Company and Shanghai Airlines were each airline carriers based in Shanghai with overlapping route operations, we believe that our acquisition of Shanghai Airlines will strengthen our market positioning in the growing air transportation market in China through cost synergies, the creation of economies of scale and improved optimization of route plans, flight schedules and route networks. In addition, we expect the improved operational efficiency and our increased competitiveness resulting from the combination of our Company and Shanghai Airlines will facilitate the promotion of Shanghai as a vital transportation hub in the international air transportation market.

On July 26, 2010, the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province, or Yunnan SASAC, entered into an agreement with our Company to jointly establish Eastern Airlines Yunnan Limited Corporation, or EA Yunnan. We will contribute 65% of the registered capital of EA Yunnan, with the remaining 35% contributed by Yunnan SASAC. EA Yunnan will focus on the provision of general civil aviation transportation and maintenance services. We believe that EA Yunnan will allow us to further enhance the existing provision of aviation services in Yunnan Province and surrounding regions in eastern China, and enhance our overall competitiveness and business development in the area.

On December 20, 2010, China Cargo Airlines, a subsidiary of our Company, as purchaser, and Great Wall Airlines, as vendor, entered into an agreement for the acquisition of the assets, being all valuable business carried on by, and all valuable assets of, Great Wall Airlines, at RMB386.9 million (subject to adjustments). The acquisition aligns with the development strategy of our Company and enhances China Cargo Airlines' capability for sustainable development, while avoiding horizontal competition. China Cargo Airlines also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. Both acquisitions have obtained the requisite approvals from CAAC, NDRC, and MOC, and were completed on June 1, 2011.

On May 30, 2011, our Board passed a resolution to approve that Eastern Air Overseas (Hong Kong) Corporation Limited, a wholly-owned subsidiary of our Company, would issue offshore RMB-denominated bonds in an amount not exceeding RMB8 billion (the "Bond Issue"). The Bond Issue, which would be guaranteed by our Company, is subject to shareholder approval and certain regulatory approvals.

The table below sets forth details of our operating fleet since 2008 and planned additions for the years 2011 and 2012:

	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	Planned Additions (1)	
	2008		2009		2010		2011	2012
A340-600	5	—	5	—	5	—	—	—
A340-300	5	—	5	—	5	—	—	—
A330-300	5	7	8	7	8	7	—	—
A330-200R	1	3	2	3	2	3	2	4
A300-600(passenger aircraft)	8	—	7	—	7	—	—	—
A321	10	—	15	—	20	—	2	5
A320	39	26	57	26	71	24	17	10
A319	5	10	5	10	5	10	—	7
MD-90	9	—	9	—	—	—	—	—
B737-800	—	7	4	9	15	46	2	3
B737-700	16	15	24	15	33	19	2	2
B737-300	16	7	16	1	16	—	—	—
B757-200	—	—	—	—	5	5		
B767-300	3	—	3	—	9	1	—	—
EMB145LR	10	—	10	—	10	—	—	—
CRJ-200	5	—	5	—	8	2	—	—
Hawker800					1			

A300-600R	2	—	3	—	3	—	—	—
B747-400ER	2	—	2	—	2	—	—	—
MD-11F	—	6	—	6	—	7	—	—
B757-200F	—	—	—	—	—	2	—	—
B777F	—	—	—	—	—	4	—	—
Total	141	81	180	77	225	130	25	31

(1) Includes aircraft owned and held under finance leases.

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 2010, and is an important domestic airline serving Shanghai, which is considered to be the international financial center and the international shipping center of China. We serve a route network that covers 182 domestic and foreign cities in 30 countries. As of December 31, 2010, we accounted for approximately 23.5% 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 International Airport and Pudong International Airport, which collectively ranked the first and second largest airport in terms of cargo and mail traffic and passenger traffic (as measured in total freight weight and total passenger number in China in 2010), respectively. In 2010, in terms of flight take-off and landing statistics, our flights accounted for 52.2% and 37.9% of all the flight traffic at Hongqiao International Airport and Pudong International Airport, respectively. In 2010, we accounted for approximately 31.1% of the total passenger traffic volume and 19.0% of the total freight volume on routes to and from Shanghai. In 2010, we were ranked by the CAAC as having the most on-time arrivals for a civil aviation operator in China for the third consecutive year.

Compared to 2009, our traffic volume (as measured in RTKs) increased by 59.3%, from 7,909 million in 2009 to 12,599 million in 2010. Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) increased from 60,942 million in 2009 to 93,153 million in 2010, or 52.9%. Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) increased by 74.1%, from 2,474 million in 2009 to 4,308 million in 2010.

In order to develop our business, we passed a resolution on June 13, 2009 proposed by CEA Holding to expand our scope of business to include "insurance agency services". We began providing agency services to assist passengers in purchasing travel insurance in the first half of 2010.

Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the three years ended December 31, 2010:

	2008 (Millions of RMB)	2009 (Millions of RMB)	2010 (Millions of RMB)
Traffic revenues			
Passenger	27,875	31,436	54,625
Cargo and mail	3,772	3,017	5,810
Fuel surcharges	7,197	2,472	6,956
Total traffic revenues	38,844	36,925	67,391

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, 2010:

	2008	2009	2010
Passenger Traffic (in RPKs) (millions)	53,785	60,942	93,153
Domestic	35,352	44,376	66,310
Regional (Hong Kong, Macau and Taiwan)	3,058	2,573	4,074
International	15,375	13,994	22,769
Passenger Capacity (in ASKs) (millions)	75,964	84,456	119,451
Domestic	47,588	59,235	83,421
Regional (Hong Kong, Macau and Taiwan)	4,562	3,835	5,576
International	23,814	21,386	30,453

	2008	2009	2010
Passenger Yield (RMB)	0.62	0.54	0.63
Domestic	0.61	0.54	0.64
Regional (Hong Kong, Macau and Taiwan)	0.64	0.63	0.78
International	0.66	0.51	0.60
Passenger Load Factor (%)	70.80	72.16	77.98
Domestic	74.29	74.91	79.49
Regional (Hong Kong, Macau and Taiwan)	67.02	67.08	73.05
International	64.56	65.43	74.77

The primary focus of our business is the provision of domestic, regional and international passenger airline services. In 2010, we operated approximately 9,600 scheduled flights per week (excluding charter flights), serving a route network that covers 182 domestic and foreign cities in 30 countries.

Our domestic routes generated approximately 71.5% 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 361 flights per week to and from Hong Kong, originating from Shanghai and 16 other major cities in eastern, northern and western China. In addition, we operated approximately 103 flights per week between mainland China and Taiwan. Our regional routes accounted for approximately 5.4% of our passenger revenues in 2010. In April 2010, we entered into a strategic framework agreement with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan.

In 2010, we operated approximately 1,079 international flights per week, serving 60 cities in 29 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. In 2010, we re-started our Shanghai to London and Shanghai to Moscow routes. Revenues derived from our operations on international routes accounted for approximately 23.2% of our passenger revenues. Revenues derived from our operations to and from Japan accounted for approximately 7.7% of our passenger revenues and approximately 33.4%

of our international passenger revenues in 2010.

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 International Airport and Pudong International Airport. Most of our international flights to or from Shanghai originate or terminate at Pudong International Airport. Pudong International Airport is located approximately 30 kilometers from the central business district of Shanghai. We moved our operations at Hongqiao International Airport to the newly-constructed terminal two of Hongqiao International Airport on March 16, 2010.

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. We will also continue to develop our operations in Beijing and Guangzhou as our principal bases for northern China and southern China, respectively.

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, 2010:

	Year Ended December 31,		
	2008	2009	2010
Cargo and Mail Traffic (in RFTKs) (millions)	2,420	2,474	4,308
Domestic	622	733	980
Regional (Hong Kong, Macau and Taiwan)	111	85	155
International	1,687	1,656	3,173
Cargo and Mail Capacity (in AFTKs) (millions)	4,805	4,904	7,137
Domestic	1,375	1,769	2,031
Regional (Hong Kong, Macau and Taiwan)	278	214	313
International	3,152	2,921	4,792
Cargo and Mail Yield (RMB)	2.21	1.67	1.95
Domestic	1.26	1.13	1.28
Regional (Hong Kong, Macau and Taiwan)	4.42	4.13	4.54
International	2.42	1.78	2.04
Cargo and Mail Load Factor (%)	50.36	50.45	60.37
Domestic	45.21	41.43	48.27
Regional (Hong Kong, Macau and Taiwan)	39.79	39.74	49.59
International	53.54	56.69	66.20

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. 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 seven MD-11F, two B757-200F and four B777F freight aircraft under operating leases for cargo and mail operations. We also have three Airbus A300-600R aircraft as well as two Boeing 747-400ER freighters for our cargo operations. In December 2010, China Cargo Airlines entered into a purchase agreement to acquire the relevant air cargo assets of Great Wall Airlines. China Cargo Airlines also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. Both acquisitions have obtained the requisite approvals from CAAC, NDRC, and MOC, and were completed on June 1, 2011. After the completion of these acquisitions, we became the largest air cargo transportation company in the PRC in terms of cargo and mail capacity.

Our Operations by Geographical Segment

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

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- Traffic revenue from services within the PRC (excluding Hong Kong, Macau and Taiwan, collectively, "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.

- 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, 2010:

	2008 (millions of RMB)	2009 (millions of RMB)	2010 (millions of RMB)
Domestic	24,333	26,888	49,692
Regional (Hong Kong, Macau and Taiwan)	2,474	1,947	3,901
International	14,265	10,155	20,210
Total	41,072	38,990	73,803

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 regional 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 these international aviation conventions, as well as certain foreign country aviation regulations and local aviation laws with respect to route allocation, landing rights and related flight operation regulation.

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.

Regional 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 entered into an agreement in 2007 to further expand the Air Transportation Arrangement. This agreement increases 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 in 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.

Prior to 2003, there was no direct air link between mainland China and 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 the governments of 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 and 370 regular direct flights per week in 2009 and 2010, respectively. Mainland China and Taiwan agreed to increase flight destinations for air links between the two sides in mainland China to 33 airports in various PRC cities in 2010, while flight destinations in Taiwan continue to include eight airports in various cities in Taiwan. On June 12, 2011, the two sides agreed to increase the total number of flights to 558 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. The two sides also previously 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.

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 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 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 most domestic routes are the published airfares implemented by Chinese airlines immediately prior to the approval of the Pricing Reform Plan. Except for certain domestic routes, the actual airfare set by each Chinese airline for its domestic routes cannot be 25% higher or 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. The CAAC and NDRC issued a notice on April 13, 2010, effective on June 1, 2010, pursuant to which airlines may set first-class and business-class airfares in accordance with market prices, subject to relevant PRC laws. Such pricing must be filed 30 days before effectiveness with the CAAC and NDRC. We expect that, as this and other reforms continue into 2010, 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 Regional 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 regional and international routes. For the airline industry in China as a whole, the airfare per kilometer is substantially higher for regional and international routes than for domestic routes.

Acquisition of Aircraft and Spare Parts

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. 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.

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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. In the second half of 2008, international crude oil prices 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. A Notice Concerning the Relevant Issues on Establishment Linkage Mechanism for Passenger Fuel Surcharges on Domestic Routes and the Price of Domestic Aviation Coal Oil Fuel (the "2009 Notice") by NDRC and CAAC, with effect from November 14, 2009, provided that fuel surcharges shall be charged by the airlines, at the airline's discretion, but within certain limits for imposing fuel surcharges as set forth in the 2009 Notice. On March 31, 2010, the NDRC and CAAC issued the Notice Regarding the Publication of Passenger Fuel Surcharges Rate on Domestic Routes, which reduced the standard fuel surcharge by 3.1% for domestic routes. In addition, on March 31, 2011, the NDRC and CAAC issued another similar notice, which further adjusted the standard fuel surcharge downwards.

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 and applicable local laws. 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 transferred 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.

The civil aviation infrastructure levy was paid to the Ministry of Finance and refunded again from July 1, 2008 to June 30, 2009, according to one of the ten measures announced by the CAAC in December 2008 in response to the global economic downturn. The refunded 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 individually or together hold a majority of our total outstanding shares. As of December 31, 2010, approximately 30.99% of our total outstanding shares were held by non-Chinese residents and Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). For PRC air transportation companies, pursuant to the Catalog of Industries for Guiding Foreign Investment, jointly promulgated by the NDRC and MOC on October 31, 2007, Chinese investors should be the controlling shareholders of a PRC air transportation company.

Competition

Domestic

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. However, 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 have faced intense competition from entrants to our domestic markets as new investments into China's civil aviation industry have been 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. In October 2010, the CAAC announced that the suspension of approvals for new Chinese airlines companies would continue for an indefinite time period. However, if the restriction is lifted in the future, we expect that competition from other Chinese airlines on our routes will further intensify.

There are currently over 30 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 500 routes and has a fleet of at least 350 jet aircraft. As of December 31, 2010, our Company, Air China and China Southern accounted for approximately 23.5%, 27.5% and 24.4%, 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. We also face competition from other domestic carriers in our air cargo business. However, we believe our absorption of Shanghai Airlines in early 2010 will strengthen our market positioning within the domestic market, particularly with respect to routes to and from Shanghai. In addition, we believe that the completion of the acquisition of the relevant air cargo assets of Shanghai Airlines, Great Wall Airlines and Shanghai International Freight Airlines Co., Ltd. has strengthened our competitive position in the domestic air cargo sector.

The PRC government is aggressively implementing the expansion of its domestic high-speed rail network, which will provide train services at a speed of up to 350km per hour connecting major cities such as Beijing, Shanghai, Wuhan, Qingdao, Guangzhou, Dalian and Hong Kong. The expansion of the coverage of this network and improvements in railway service quality, increased passenger capacity and stations located closer to urban centers than competing airports could enhance the relative competitiveness of the railway service and affect our market share on some of our key routes, in particular our routes of between 500 to 800km. Therefore, we may face increased competition and pricing pressures from railway service.

Regional

Our 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 361 flights per week between 17 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. The 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. Cathay, which owns Dragonair, also cooperates with Air China and operates all 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. This 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 370 flights per week by 2010 between 33 airports in mainland China and eight airports in Taiwan. On June 12, 2011, the two sides agreed to increase the total number of flights to 558 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. The two sides also previously 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. We currently operate flights to Taipei from Shanghai, Nanjing, Xi'an, Kunming, Wuhan, Hefei, Nanchang, Ningbo, Taiyuan, Shijiazhuang and Qingdao. Through our absorption of Shanghai Airlines in 2010, we have added three additional direct routes to Taipei from Shanghai, Tianjin and Nanjing. In addition, we signed a strategic framework agreement in April 2010 with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan. However, as 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 but ceased to operate that route in October 2008. 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 we are 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 and provide better service 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. 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 primarily compete with Air China on our passenger routes to Japan. On our Korean routes, we compete with Asiana Airlines and Korean Air. 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 Delta Air Lines, United Airlines, American Airlines, Air China and Air Canada. On our European routes, our competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways, Lufthansa German Airlines and Aeroflot. We compete with Air China and Qantas Airways 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. In addition, in April 2010, we and Shanghai Airlines also announced our intention to join Sky Team, an international airlines alliance and frequent flyer mileage program that includes, among others, international carriers such as Delta, China Southern, Alitalia, Air France and KLM. Our entry is expected to be effective on June 21, 2011. We believe this will increase our competitiveness and enhance our reputation in international markets, as we expect to benefit from possible codeshare and cooperative flight options, reduced costs and increased alliance-related marketing and promotion overseas.

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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

Through our cooperation with service providers and ventures with other companies, we currently perform regular repair and maintenance checks on all of our aircraft, which include D1 checks, C checks and other maintenance services for certain aircraft and other flight equipment. We also perform certain maintenance services for other Chinese airlines. Our primary aircraft maintenance base is at Hongqiao International Airport. We have additional maintenance bases at Pudong International Airport and some of our provincial hubs. Our maintenance staff in Shanghai supervises the operation of our regional maintenance facilities. We currently employ approximately 9,411 workers as maintenance and engineering personnel. Some of our aircraft maintenance personnel have participated in the manufacturer training and support programs sponsored by Airbus and 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 International 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 in-flight entertainment facilities in China. Our Company and Rockwell Collins International Inc. hold 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 hold 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 aircraft at our own training facility, the training facility located in the CAAC training center or overseas training facilities.

Fuel Supplies

Fuel costs represented approximately 31.4% of our operating expenses in 2010. 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 six designated major airports in China, namely, the airports in Shanghai Pudong, Shanghai Hongqiao, 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 2010, we consumed approximately 3.85 million tonnes of fuel in 2010, an increase of 46.4% from 2009. Our fuel expenses increased to RMB21,606 million in 2010, or an increase of 76.3%, as compared to 2009, as a result of the expansion of our operations and an increase of approximately 20% in the average weighted price of aviation fuel. In early 2011, fuel prices were volatile by the political instability and turmoil in certain Middle Eastern countries, as well as the natural disasters in Japan. We cannot assure you that fuel prices will not further fluctuate in the future. Further, 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.

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 International 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 these airports, and also provide ground services in these locations. We lease from CEA Holding certain buildings at Hongqiao International 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 International Airport and Pudong International Airport. We also provide ground services for many other airlines that operate to and from Hongqiao International Airport and Pudong International Airport.

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 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.

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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 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 initial 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 upgraded and rebranded 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 11.9 million in 2010. The special services hotline “95530” call center was established and came into operation in 2004.

In April 2010, we announced our intention to join SkyTeam, an international airlines alliance and frequent flyer mileage program that includes international carriers such as, among others, Delta, China Southern, Alitalia, Air France and KLM. The entry of our Company as well as Shanghai Airlines into SkyTeam was effective on June 21, 2011. We believe this will be another benefit for our passengers, as they will be afforded additional flight options and frequent flyer mileage benefits through our SkyTeam alliance partners. In addition, our Company will benefit from possible codeshare and cooperative flight options, reduced costs and increased alliance-related marketing and promotion overseas.

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 International 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. We believe that all of these efforts improved the quality of our transit services. 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 enhancing our non-regular services.

We have entered into code-sharing arrangements with China Airlines, Air France, China Southern Airlines, Japan Airlines, Korean Airlines, Qantas Airways, Thai Airways, and Xiamen 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 8,400 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 airports such as Hongqiao International Airport and Pudong International Airport in Shanghai and in Anhui, Zhejiang, Shandong and Yunnan provinces, as well as at airports in Beijing, Chengdu, Fuzhou, Guangzhou, Hangzhou, 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 located in various cities in China, we maintain overseas sales or representative offices worldwide, including North American locations such as Los Angeles, New York and Vancouver; European and Middle Eastern locations such as Dubai, Frankfurt, London, Madrid, Moscow, Paris and Rome; Asia-Pacific locations such as Bali, Bangkok, Dacca, Fukuoka, Fukushima, Hiroshima, Ho Chi Minh City, Kagoshima, Kolkata, Komatsu, Kuala Lumpur, Maldives, Mandalay, Matsuyama, Melbourne, Nagasaki, Nagoya, New Delhi, Niigata, Okayama, Okinawa, Osaka, Phnom Penh, Phuket, Sapporo, Seoul, Shizuoka, Siem Reap, Singapore, Sydney, Taipei, Tokyo, Vientiane and Yangon, 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. Most 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 and our cooperative partners in our cargo operations have established domestic cargo sales offices in Beijing, Shanghai, Xiamen and other major transportation hubs in China, and international cargo sales offices in various locations in the U.S., Europe and the Asia-Pacific Region. In 2005, we established our northern China, southern China, southeastern China and overseas sales management centers to improve coordination among our sales offices.

General Aviation Services and Ancillary 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. In December 2003, we 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.

With our subsidiary, Shanghai Airlines, we derive revenue from tourism and travel services through Shanghai Airlines Tours International (Group) Co., Ltd., or SAT. SAT provides various business and leisure travel services, including inbound, outbound and domestic travel, conference and exhibition planning, flight chartering and plane ticket reservation, tour bus and hotel reservation and other related services. SAT is a member of the China Association of Travel Services and Shanghai Association of Tourism (International and Domestic Travel Services divisions), as well as a member of Shanghai Association of Quality, and has been admitted into many international travel organizations including the IATA. SAT has won several awards as a travel services provider, as well as awards and honors for its professional staff and vacation package offerings.

We also derive revenues from the provision of airport ground services for airlines operating to or from Hongqiao International 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 International Airport and Pudong International Airport. We provide these services to foreign carriers generally pursuant to one-year renewable contracts. In 2010, we generated net revenues of approximately RMB1,272 million from our airport ground services and cargo handling services.

We have other ancillary activities, including investments in other industrial projects and provision consulting services under Shanghai Eastern Airlines Investment Co., Ltd. Along with CEA Holding, we also established China Eastern Real Estate Investment Co., Ltd., which is primarily engaged in the real estate business, including the development and sales of commercial premises and property leasing in Shanghai, China.

Our general aviation services customers include provincial authorities in charge of agriculture, forestry and geology.

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 — Risks Relating to the Company — Our insurance coverage and costs have increased substantially, and could have an adverse effect on our operations" for more information on our Company's insurance coverage.

C. Organizational Structure

See the section headed "Item 4. Information on the Company — History and Development of the Company".

D. Property, Plant And Equipment

Fleet

As of December 31, 2010, we operated a fleet of 355 aircraft, including 337 passenger jets, most with a seating capacity of over 100 seats, and 18 freighters. In 2010, we completed (i) the purchase or finance lease of a total of 25 aircraft, including 14 A320 aircraft, three A321 aircraft, five B737-700 aircraft and three B737-800 aircraft; (ii) the operating lease of 14 aircraft, including ten B737-800 aircraft and four B777F aircraft; and (iii) the disposal of 15 aircraft, including surrender of the lease of two A320 aircraft, one B737-300 aircraft and three MD11F aircraft, and sale of nine MD90 aircraft. On December 30, 2010, the Company entered into the aircraft purchase agreement with Airbus SAS in Shanghai regarding the purchase of fifty Airbus A320 series aircraft. For details, please refer to the announcements furnished to the SEC on Forms 6-K dated December 30, 2010 and February 24, 2011, respectively. We plan to continue to expand our scale in 2011 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, 2010, we had a fleet of 355 aircraft, including 337 passenger jets each with a seating capacity of over 100 seats and 18 freighters. The following table sets forth the details of our fleet as of December 31, 2010:

	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)
Jet Passenger Aircraft:					
Wide-body:					
A340-600	5	5	—	322	7
A340-300	5	5	—	289	14.2
A330-300	15	8	7	300	3.7
A330-200	5	2	3	264	4.2
A300-600R	7	7	—	271	16
B767-300	10	9	1	253	10.9
Narrow-body:					
A321	20	20	—	177	3.1
A320	95	71	24	158	6.2
A319	15	5	10	122	7.7
Boeing 737-800	61	15	46	164	3.4
Boeing 737-700	52	33	19	134	5.7
Boeing 757-200	10	5	5	184	5.1
Boeing 737-300	16	16	—	136	14.5
EMB 145LR	10	10	—	50	4.2
CRJ-200	10	8	2	50	8.6
Hawker800	1	1	—	8	8.6
Total Passenger Aircraft:	337	220	117	—	—
Cargo Aircraft:					

MD-11F	7	—	7	—	9.5
A300-600R	3	3	—	—	20.5
B747-400ER	2	2	—	—	3.8
B757-200F	2	—	2	—	4.4
B777F	4	—	4	—	0.6
Total Cargo Aircraft:	18	5	13	—	—
Total Fleet	355	225	130	—	—

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

Our daily average aircraft utilization rate was 9.7 hours in 2010, representing an increase of 0.3 hours compared to 2009. The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the three years ended December 31, 2010:

	2008	2009	2010
		(in hours)	
Wide-body:			
A340-600	10.9	11.8	11.9
A340-300	9.5	8.9	10.6
A330-300	8.9	9.4	9.4
A330-200	13.3	12.6	13.8
A300-600	7.9	7.5	8.5
B767-300	7.7	9.7	9.1
Narrow-body:			
MD-90	5.6	6.3	5.5
A321	9.1	9.8	9.6
A320	9.3	9.8	10
A319	9.3	9.0	9.5
Boeing 737-800	9.8	10.3	10.3
Boeing 737-700	9.8	10.2	9.7
Boeing 737-300	8.9	9.5	9.3
EMB 145	6.5	7.6	8.3
CRJ-200	7.8	7.3	6.6
B757-200	—	—	8.9
Hawker800	—	—	—
Total Passenger Aircraft Average			9.7

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, 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 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 Airbus A320 aircraft are also used primarily on our Hong Kong 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.

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 net increase in the number of jet aircraft deliveries from 2011 to 2016 as of December 31, 2010:

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	2011E	2012E	2013E	2014E	2015E	Total
Aircraft						
A320	17	10	3	6	8	44
A319	—	7	3	4	2	16
A321	2	5	6	6	6	25
A330-200	2	4	6	4	—	16
B737-800	2	3	7	7	8	27
B737-700	2	2	5	7	6	22
Total	25	31	30	34	30	150

The actual acquisition of any of these aircraft or any additional aircraft may depend on such factors as general economic conditions, the levels of prevailing interest rates, foreign exchange rates, the level of inflation, credit conditions in the domestic and international markets, conditions in the aviation industry in China and globally, our financial condition and results of operations, our financing requirements, the terms of any financing arrangements, such as finance leases, 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.

Operating Facilities

The Company (including branches) had operations on 36 parcels of land, occupying a total area of approximately 1.57 million square meters, as of December 31, 2010. Our major subsidiaries, including but not limited to Shanghai Airlines, China Cargo Airlines Co., Ltd., Eastern Jiangsu, CEA Wuhan, Eastern Logistics and Shanghai Eastern Flight Training Co., Ltd., owned and had operations on 48 parcels of land, occupying a total area of approximately 1.84 million square meters, as of December 31, 2010.

As of December 31, 2010, the Company (including branches) owned 1332 buildings, with a total gross floor area of approximately 563,179 square meters. Our major subsidiaries owned 200 buildings, with a total gross floor area of approximately 241,392 square meters, as of December 31, 2010.

Our Company and major subsidiaries have obtained the land use rights certificates and building ownership certificates for certain parcels of land and buildings, and are currently in the process of applying for the certificates with respect to the remaining parcels and buildings.

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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. This discussion may include forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Item 3. Key information – D. Risk Factors" or in other parts of this Annual Report.

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 increased by 43.0%, from 12,505.5 ATKs in 2009 to 17,887.4 ATKs in 2010, and our passenger capacity on an available seat kilometer, or ASK, basis increased by 41.4%, from 84,456.4 million ASKs in 2009 to 119,450.9 ASKs in 2010. Total traffic on a revenue tonne kilometer, or RTK, basis increased by 59.3%, from 7,908.7 RTKs in 2009 to 12,599.0 RTKs in 2010.

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.

Operating Segments

The Company presents segment information in a manner that is similar to the management's internal reporting. The Company is principally engaged in the operation of civil aviation, including the provision of passenger, cargo and other extended transportation services and are managed as a single business unit. The Company has one reportable operating segment, reported as "airline operations". See Note 7 to our audited consolidated financial statements.

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Acquisitions

We entered into an agreement with Shanghai Airlines on July 10, 2009 to issue a maximum of 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. The acquisition price was RMB9,118 million, which was determined based on the quoted market price of our shares issued as of the date nearest to the acquisition date, with adjustments to reflect specific restrictions to certain shares that were issued. On January 28, 2010, we completed the exchange of 1,694,838,860 A Shares for all existing issued shares of Shanghai Airlines and Shanghai Airlines became a wholly-owned subsidiary of our Company.

A. Operating Results

The following tables set forth our summary income statement and balance sheet data as of and for the years indicated:

	Year Ended December 31,				
	2006 RMB	2007 RMB	2008 RMB	2009 RMB	2010 RMB
	(in millions, except per share data)				
Summary Income Statement Data (IFRS)					
Revenues	37,557	42,534	41,073	38,990	73,804
Other operating income and gains	499	488	672	1,288	658
Operating expenses	(40,795)	(42,894)	(56,828)	(38,456)	(68,765)
Operating profit/(loss)	(2,740)	128	(15,083)	1,821	5,697
Finance (costs)/income, net	(731)	162	(267)	(1,549)	(347)
Profit/(loss) before income tax	(3,338)	378	(15,256)	249	5,418
Profit/(loss) for the year attributable to owners of the parent	(3,035)	379	(15,269)	169	4,958
Earnings/(loss) per share attributable to owners of the parent (1)	(0.62)	0.08	(3.14)	0.03	0.44

	As of December 31,				
	2006 RMB	2007 RMB	2008 RMB	2009 RMB	2010 RMB
	(in millions)				
Summary Balance Sheet Data (IFRS)					
Cash and cash equivalents	1,987	1,655	3,451	1,735	3,078
Net current liabilities	(24,588)	(26,098)	(43,458)	(28,648)	(27,184)
Non-current assets	51,725	57,949	62,652	64,988	91,254
Long term borrowings, including current portion					