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Renminbi (“CNY”) is currently not freely convertible and conversion of CNY through banks in Hong Kong is subject to certain restrictions. Investors should be reminded of conversion risk in CNY products. In addition, there is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid or offer spreads. CNY products are denominated and settled in CNY deliverable in Hong Kong, which represents a market which is different from that of CNY deliverable in mainland China.

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Eastern Air Overseas (Hong Kong) Corporation Limited

(incorporated with limited liability in Hong Kong)

CNY2,500,000,000 4.8 per cent. Guaranteed Bonds due 2017

Unconditionally and Irrevocably Guaranteed by



China Eastern Airlines Corporation Limited

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

(HKSE Stock Code: 00670)

Issue Price: 100 per cent.

The 4.8 per cent. Guaranteed Bonds due 2017 in the aggregate principal amount of CNY2,500,000,000 (the "Bonds") will be issued by Eastern Air Overseas (Hong Kong) Corporation Limited (the "Issuer") and will be unconditionally and irrevocably guaranteed (the "Guarantee") by China Eastern Airlines Corporation Limited (the "Guarantor").

Interest on the Bonds is payable semi-annually in arrears on the Interest Payment Date (as defined in the Terms and Conditions of the Bonds) falling on or nearest to 13 March and 13 September in each year. Payments on the Bonds will be made without deduction for or on account of taxes of Hong Kong, the PRC (as defined herein) or any authority therein or thereof having power to tax to the extent described under "Terms and Conditions of the Bonds — Taxation".

The Bonds will mature on the Interest Payment Date falling on or nearest to 13 March 2017 at their principal amount. The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax. See "Terms and Conditions of the Bonds — Redemption and Purchase".

The Bonds may also be redeemed at the option of the Bondholders (as defined in the Terms and Conditions of the Bonds) at 102 per cent. of their principal amount, together with accrued interest, upon a Change of Control (as defined in the Terms and Conditions of the Bonds) and at 100 per cent. of their principal amount, together with accrued interest, upon the occurrence of a No Registration Event (as defined in the Terms and Conditions of the Bonds).

The Guarantor obtained approval from the Shanghai Bureau of the State Administration of Foreign Exchange ("SAFE") to provide the Guarantee on 29 June 2011. The Guarantor is required by the Administrative Measures on Securities Given to Foreign Parties by Domestic Institutions (境內機構對外擔保管理辦法) promulgated by the People's Bank of China on 25 September 1996 and the Rules for Implementing the Administrative Measures on Securities Given to Foreign Parties by Domestic Institutions (境內機構對外擔保管理辦法實施細則) promulgated by SAFE on 11 December 1997 (the "Foreign Security Measures") to register the Guarantee with SAFE within 15 calendar days after its execution. The Guarantee may not be enforceable until the registration of the Guarantee is completed in accordance with the provisions of the Foreign Security Measures. The Guarantor intends to complete the registration of the Guarantee with the Shanghai Bureau of SAFE as soon as practicable and in any event before the Registration Deadline (being 30 Business Days (as defined in the Terms and Conditions of the Bonds) after 13 March 2014 (the "Issue Date")). The Bonds may be redeemed at the option of the Bondholders at 100 per cent. of their principal amount, together with accrued interest, following the occurrence of a No Registration Event. See "Terms and Conditions of the Bonds — Redemption and Purchase". For a more detailed description of the Bonds, see "Terms and Conditions of the Bonds". The Bonds will be issued in denominations of CNY1,000,000 each and higher integral multiples of CNY10,000.

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 14 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

Application will be made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of, and permission to deal in, the Bonds by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only and such permission is expected to become effective on or about 14 March 2014.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult his or her adviser.

The Bonds will be issued in registered form and represented by a global certificate (the "Global Certificate") which will be registered in the name of the Hong Kong Monetary Authority (the "HKMA") as the operator of, and shall be deposited on or about the Issue Date with a sub-custodian for, the Central Moneymarkets Unit Service (the "CMU"), the book-entry clearing system operated by the HKMA. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by the CMU.

Joint Lead Managers

**Agricultural Bank of China Limited
Hong Kong Branch**

DBS

Deutsche Bank

HSBC

**Standard Chartered Bank
(Hong Kong) Limited**

Offering Circular dated 6 March 2014

IMPORTANT NOTICE

This offering circular (the “Offering Circular”) includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Company (as defined below). Each of the Issuer and the Guarantor (including its subsidiaries, the “Company”) accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of each of their knowledge and belief there are no other facts the omission of which would make any statement in this Offering Circular misleading.

In addition, each of the Issuer and the Guarantor confirms, having made all reasonable enquiries, that (i) this Offering Circular contains all information with respect to the Issuer, the Company, the Bonds and the Guarantee, which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in it relating to the Issuer and the Company are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer and the Company are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) the financial, operational, statistical, industry and market-related data included in this Offering Circular has been accurately extracted from the various sources, and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, Agricultural Bank of China Limited Hong Kong Branch (“ABC,HK”), DBS Bank Ltd. (“DBS”), Deutsche Bank AG, Hong Kong Branch (“DB”), The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), and Standard Chartered Bank (Hong Kong) Limited (“SC”, and together with ABC,HK, DBS, DB and HSBC, the “Joint Lead Managers”) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto in certain jurisdictions, including the United States, the United Kingdom, the People’s Republic of China, Hong Kong, Singapore, Taiwan, Macau and Japan and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see “Subscription and Sale”. By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Company, China Eastern Air Holding Company (“CEA Holding” or the “Parent”) and the Guarantor and its subsidiaries and its associates (together with the Issuer, the “Group”), the Bonds or the Guarantee other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Company, the Joint Lead Managers, the Trustee or the Agents (as defined in the Terms and Conditions of the Bonds). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Company, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

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None of the Joint Lead Managers, the Trustee or the Agents has independently verified the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

IN CONNECTION WITH THE ISSUE OF THE BONDS, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED AS THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END AFTER A LIMITED PERIOD. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

In making an investment decision, investors must rely on their own examination of the Issuer, the Company, the Group and the terms of the offering, including the merits and risks involved. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their affiliates in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisors accepts any responsibility for the contents of this Offering Circular or for any statement made or purported to be made in connection with the Issuer, the Guarantor, the Group, the Guarantee or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee and the Agents and each of their respective affiliates, directors and advisors accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Bonds remain outstanding nor to advise any investor or potential investor of the Bonds of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates.

The Guarantor has prepared audited consolidated financial statements as at and for the years ended 31 December 2011 and 2012 and unaudited consolidated financial statements as at and for the six months ended 30 June 2012 and 2013. These audited and unaudited consolidated financial statements of the Guarantor are included in this Offering Circular and are prepared in conformity with International Financial Reporting Standards (“IFRS”). See “Index to Consolidated Financial Statements” and “Summary Financial Information — Selected Financial Information”. Investors should note that the Company implemented the policy of transformation from business tax to value-added tax in 2012. Therefore the comparison between the Guarantor’s audited consolidated financial statements as at and for the years ended 31 December 2011 and 2012 is not representative in this regard.

Unless otherwise indicated, all references in this Offering Circular to “China” or the “PRC” are to the People’s Republic of China and for the purpose of this Offering Circular only, excluding, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan, and all references to “Hong Kong” are to the Hong Kong Special Administrative Region of China.

Unless otherwise specified or the context requires, references herein to “Renminbi”, “RMB” or “CNY” are to the lawful currency of the PRC, references herein to “Hong Kong dollars”, “HK dollars”, “HK\$”, “HK cents” or “HKD” are to the lawful currency of Hong Kong, references herein to “U.S. dollars”, “US\$”, “US cents” or “USD” are to the lawful currency of the United States of America, and references to “IFRS” are to International Financial Reporting Standards.

FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made forward-looking statements in this Offering Circular regarding, among other things, the Company's financial condition, future expansion plans and business strategy. These forward-looking statements are based on the Company's current expectations about future events and speak only as at the date they are made. The Issuer and the Guarantor 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 the Company's control, and are based on assumptions and analyses made by the Guarantor in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors which the Guarantor believes are appropriate in particular circumstances. These forward-looking statements include, without limitation, statements relating to:

- 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;
- the Company's fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;
- the Company's strategic plan of the cargo operation;
- the Company's strategic plans, including possible acquisition of other airlines;
- the Company's marketing plans, including the establishment of additional sales offices;
- the Company's plan to add new pilots; and
- the impact of unusual events on the Company's business and operations.

All statements other than statements of historical facts contained in this Offering Circular constitute "forward-looking statements". The words or phrases "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "going forward", "intend", "ought to", "may", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Company or its management, are intended to identify "forward-looking statements". All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, revenue and profitability, planned projects and other matters as they relate to the Issuer, the Company and/or the Group discussed in this Offering Circular regarding matters that are not historical fact. Accordingly, you are cautioned 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:

- changes in political, economic, legal and social conditions in China;
- any changes in the regulatory or taxation policies of the CAAC or any regulator or government agency in a jurisdiction where the Company provides services;

- the development of the high-speed rail network in the PRC;
- fluctuations of interest rates and foreign exchange rates;
- the availability of qualified flight personnel and airport facilities;
- the effects of competition on the demand for and price of the Company's services;
- the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;
- any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of the Company's borrowings are denominated;
- the Company's ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and
- general economic conditions in markets where the Company operates.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

GLOSSARY OF TECHNICAL TERMS

Capacity measurements

ATK (available tonne-kilometres)	the number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown
ASK (available seat-kilometres)	the number of seats made available for sale multiplied by the distance flown
AFTK (available freight tonne-kilometres)	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the distance flown

Traffic measurements

revenue tonne-kilometres or RTK	load (passenger and cargo) in tonnes multiplied by the distance flown
revenue passenger-kilometres or RPK	the number of passengers carried multiplied by the distance flown
revenue freight tonne-kilometres or RFTK	cargo and mail load in tonnes multiplied by the distance flown
revenue passenger tonne-kilometres or RPTK	passenger load in tonnes multiplied by the distance flown

Load factors

overall load factor	tonne-kilometres expressed as a percentage of ATK
passenger load factor	passenger-kilometres expressed as a percentage of ASK
freight load factor	cargo tonne-kilometres expressed as a percentage of AFTK
break-even load factor	the load factor required to equate traffic revenue with the Company's operating costs assuming that the Company's total operating surplus is attributable to scheduled traffic operations

Yield and cost measurements

revenue tonne-kilometres yield	revenue from airline operations divided by tonne-kilometres
passenger-kilometres yield (revenue per passenger-kilometre)	revenue from passenger operations divided by passenger-kilometres
freight tonne-kilometres yield (revenue per cargo tonne-kilometre)	revenue from cargo operations divided by cargo tonne-kilometres
available tonne-kilometres unit cost	operating expenses divided by ATK
tonne	a metric ton, equivalent to 2,204.6 lbs

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.

THE ISSUER

The Issuer is a limited liability company incorporated under the Companies Ordinance (Cap. 622) of Hong Kong (CR No. 1614655). It was incorporated in Hong Kong on 10 June 2011. Its registered office is 22/F., Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong. The Issuer is a wholly owned subsidiary of the Guarantor.

The Issuer is principally engaged in investment holding and serves as a vehicle to procure financing outside the PRC for the Company. The Issuer, as a joint venture partner with Jetstar International Group Holdings Co., Limited, a wholly owned Hong Kong-based subsidiary of Qantas Airlines, invested in Jetstar Hong Kong Airways. Please see “History and Development of the Company” for more details. In addition, the Issuer engages in the purchase of aircraft and the procurement of aircraft fuel for the Company. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue additional bonds, acquire additional aircraft and enter into leases of such aircraft, enter into fuel hedging and other related derivative transactions (and engage in other activities related to the aforementioned) and other businesses related to those of the Company and may incur additional liabilities and indebtedness.

THE COMPANY

The Company was one of the three largest air carriers in China in terms of RTK and number of passengers carried in 2013, and is an important PRC airline with strategic hubs in Shanghai, Kunming and Xi’an. The Company serves a route network that covers over 1,000 domestic and foreign destinations in around 187 countries through SkyTeam. The Company operates 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 by total freight weight and total passenger numbers in China in 2013), respectively, as well as Kunming Changshui International Airport and Xi’an Xianyang International Airport. In the first half of 2013, the Company accounted for 48.8 per cent., 37.4 per cent., 45.0 per cent. and 31.3 per cent. of the market share at Hongqiao International Airport, Pudong International Airport, Kunming Changshui International Airport and Xi’an Xianyang International Airport, respectively, in terms of passenger throughput.

COMPETITIVE STRENGTHS

The Company’s vision is to become a leading airline in Asia and a leading global competitor, with the mission of emphasizing staff loyalty, customer preference, investor satisfaction and strong social responsibility. The Company believes that its business model is favourable to that of other major airlines in a number of significant respects, which the Company intends to continue to pursue. The Company’s main competitive strengths include the Company’s status as a Central SOE (which is defined as an enterprise directly and majority owned by the State-owned Assets Supervision and Administration Commission (“SASAC”)), its position to benefit from the continued high growth of China’s aviation market, its favourable connectivity and geographical position, its high operating efficiency, its improved financial and liquidity position, its strategic SkyTeam alliance membership, its experienced management team and sound corporate governance, as well as strong recognition of the China Eastern Airlines brand.

A Central SOE with strong and direct support from the PRC central government

CEA Holding is one of the 113 Central SOEs directly supervised by the SASAC of the PRC central government. The Guarantor is 64.35 per cent. owned by CEA Holding, which in turn is 100 per cent. owned by the SASAC. CEA Holding was ranked as one of the 46 Class A Central SOEs by SASAC in 2012. The Guarantor enjoys a number of direct and indirect benefits as a result of its status as a Central SOE. For example, to further improve the financial position of the Guarantor and to enhance its competitiveness in the international aviation market, the SASAC has through CEA Holding and CES Finance Holding Co. Ltd injected capital in the amount of RMB2,292.3 million into the Guarantor on 18 April 2013. The Guarantor believes that its status as a Central SOE well positions it to better execute its business plan and to more directly benefit from China's high economic growth.

Well positioned to benefit from the continued high growth of China's aviation market

The Company believes that, based on its established market position and geographic location, it is well-positioned to continue to take advantage of the opportunities presented by China's civil aviation market growth. China's civil aviation market, as measured by RPK and RFTK, grew by a CAGR of more than 10 per cent from 2006 to 2012. Civil aviation penetration among China's population remains low at 0.24 trip per capita in 2013. According to the Initiatives Aimed at Promoting the Long-term Development of the Aviation Industry (國務院關於促進民航業發展的若干意見) promulgated on 8 July 2012, China's civil aviation industry is expected to achieve an annual total capacity of 170 billion RTKs and an air trip per capita of 0.5 by the year of 2020. The Company believes its bases in Kunming and Xi'an render it well placed to capitalise on the economic growth of western China, which has a faster growth rate relative to eastern China.

Favourable connectivity and geographical position

The Company believes that the operation of its services through its hub in Shanghai, combined with its current network that covers over 1,000 domestic and international destinations in around 187 countries through SkyTeam and its high frequency of flights, allow it to maximise connectivity across the markets and locations that it serves. Shanghai is China's leading international financial centre and international shipping centre. Shanghai handled the largest amount of cargo freight in terms of freight and cargo traffic and the second largest number of flight passengers in terms of passenger traffic among all cities in China in 2013. The Company also strategically develops its hubs in Beijing, which handles the largest number of flight passengers and the second largest amount of cargo freight in China, and from the leading airports in north-west and south-west China (Xi'an and Kunming, respectively). The Company has also developed cooperation with strategic partners to enhance its hub network. For example, in response to the competition from HSR network, the Company has cooperated with the Shanghai Railway Bureau to launch "Air-Rail Pass Transportation" products offering combined air and rail service package in 13 cities in the Yangtze River Delta, including Nanjing, Hangzhou and Suzhou in 2012.

On 21 June 2011, the Company became a member of SkyTeam. The Company's membership of SkyTeam has raised the Company's standards in terms of marketing, service and other areas and further strengthened its market presence and traffic volume in the international civil aviation market by offering the Company's customers more value and choice when making their international travel plans. As a SkyTeam member, the Company benefits from its strategic alliance with well-known airlines such as Delta, China Southern, Alitalia, Air France and KLM, which allows its passengers to enjoy benefits such as increased flight choice to fit their travelling schedules and destinations, smoother transfers for travel across the global network, priority check-in and enhanced frequent flyer programme benefits. In addition to the alliance with SkyTeam, the Company continues to deepen collaboration on codeshare with other airline companies, such as Japan Airlines and Qantas.

Strong brand recognition associated with top quality customer service

The Company believes that it is one of the most respected brands in China. It strives to improve its customers' travel experience on the ground and in the air, through continual product and service improvement. The Company's continued investment in new aircraft and on-board product across its fleet further demonstrates its commitment to customer service and further strengthen its brand and services. The Company believes that the quality of the service which it offers and the strength of its brand are critical to its continuing success and intends to continue focusing on developing its brand. It was recognized as one of the "Most Innovative PRC Companies" by Fortune Magazine in 2011, and its "China Eastern Airlines" brand was awarded China's Famous Trademark by the State Administration for Industry and Commerce in 2011. In addition, in 2012, the Company received various recognitions and awards, including "The World's Most Improved Airline" by SKYTRAX, a United Kingdom-based aviation research organization, "Golden Tripod Prize", which was the highest award given at the 8th Annual Meeting of China's Securities Market, Golden Bauhinia Award for "The Listed Company with Best Brand Value 2012" by China Securities, "2012 Best Mid-Cap Company and Best Managed Company in China" by Asiamoney Magazine, "Top 50 Most Valuable Chinese Brands" by WPP, a global brand communication and public relations firm, 2012 TOP 25 CSR (Corporate Social Responsibility) Ranking" by Fortune China Magazine, and "2012 China State-owned Listed Enterprise Social Responsibility Rankings Top 20" by Southern Weekly. In 2013, the Company was awarded "Top Ten Airline Companies" at the "2013 China Travel Award" ceremony held by "Travel+Leisure" Magazine.

Economies of scale and high and improved operating efficiency

The Company has ranked as one of the 10 largest airlines in the world by IATA in terms of number of scheduled passengers carried. Leveraging its economies of scale, the Company has continued to improve operating efficiency in recent years and intends to maintain its improved operating efficiency. The Company's operating efficiency is indicated by its annual fleet average utilisation rates which were 9.8 hours per passenger aircraft per day and 9.7 hours per cargo aircraft per day in 2013, respectively, compared to the industry average of 9.2 hours per aircraft per day according to the 2012 Statistical Bulletin of the Development of Civil Aviation Industry published by the CAAC.

Improved financial and liquidity position and diversified sources of funding

The Company's financial and liquidity position have strengthened considerably since 2010. The Company's liability ratio (defined as total liabilities divided by total assets) improved from 84.0 per cent. as at the end of 2010 to 80.2 per cent. as at the end of 2012 and to 80.6 per cent. as at 30 June 2013. The Company's outstanding funding has been obtained from a number of different sources, including funds generated from operation, operating leases, commercial bank lending, export credit guaranteed bank funding and debt securities issued into the capital markets. Accordingly, the Company has established, and intends to maintain, a diversified portfolio of funding without the need to rely on any single source of funding.

Experienced management team and sound corporate governance

The Company believes that its management team is well experienced in the civil aviation industry and is capable of providing expertise to achieve the Company's business objectives. The Company's board is currently composed of 11 directors, five of whom are independent non-executive directors. The Company's Chairman, Mr. Liu Shaoyong, joined the civil aviation industry in China in 1978. Since his appointment as Chairman of the Company, Mr. Liu has, among others, managed a series of strategic initiatives such as the merger of the Company with Shanghai Airlines and the restructure of the cargo assets. Mr. Liu also serves as Deputy Party Secretary and President of CEA

Holding. Furthermore, the Company's current senior management have implemented a number of important initiatives since 2009, including three key fundraisings for the Guarantor from the government, the absorption of Shanghai Airlines and the consolidation of cargo freight businesses under China Cargo Airlines. See "History and Development of the Company" for details.

STRATEGIES

In addition to pursuing the above competitive strengths, the Company's core strategies are to continue to:

- expand and optimise flight connectivity through the Company's Shanghai hub and code sharing arrangements with alliance partners;
- further promote the China Eastern Airlines brand as a premium brand in China;
- further promote value-added services to its passengers by leveraging the SkyTeam brand;
- train and support its network of domestic sales agents and representatives;
- develop integrated product packages with strategic partners, such as the Shanghai Rail Bureau;
- develop the high-end market through the selective targeting of group customers;
- further improve cost structure and enhance productivity; and
- further pursue industry best practices in operations and management.

THE ISSUE

The following is a summary of the terms of the offering and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Unless otherwise defined in this Offering Circular, words and expressions defined in “Terms and Conditions of the Bonds” shall have the same meanings in this summary. For a more complete description of the terms of the Bonds, see “Terms and Conditions of the Bonds”.

Issuer	Eastern Air Overseas (Hong Kong) Corporation Limited
Guarantor	China Eastern Airlines Corporation Limited
Issue	CNY2,500,000,000 aggregate principal amount of 4.8 per cent. Guaranteed Bonds due 2017.
Guarantee	<p>The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed, as further described in Condition 2 of the Terms and Conditions of the Bonds.</p>

The Guarantor obtained approval from SAFE on 29 June 2011, which allowed the Guarantor to guarantee any bond indebtedness of the Issuer incurred outside the PRC for a principal amount of up to CNY8 billion and all interest and relevant expenses incurred for a guarantee period of up to 5 years. On 11 August 2011, the Issuer issued offshore CNY denominated bonds in an aggregate principal amount of CNY2.5 billion at 4 per cent. due 2014, which are listed on the Singapore Exchange Securities Trading Limited and are guaranteed. This guarantee for the CNY2.5 billion bonds due 2014 was covered by the above SAFE approval. The Guarantor registered this guarantee with SAFE on 12 August 2011. On 5 June 2013, the Issuer issued offshore CNY denominated bonds in an aggregate principal amount of CNY2.2 billion at 3.875 per cent. due 2016, which are listed on the Hong Kong Stock Exchange and are guaranteed. This guarantee for the CNY2.2 billion bonds due 2016 was covered by the above SAFE approval.

Under the approval obtained from SAFE on 29 June 2011, the Guarantor can guarantee additional bond indebtedness under the circumstances set out in the previous paragraph. As a result, the Guarantor may guarantee additional bond indebtedness if the additional bond indebtedness to be guaranteed satisfies the above conditions set out in the SAFE approval and it registers such guarantees with SAFE. The Guarantor intends to register with SAFE the Guarantee with respect to the Bonds. Under the SAFE Notice, the Guarantor

is required to file with SAFE certain information with respect to the Bonds within 15 calendar days after the execution of the Guarantee for the Bonds. The Guarantee is not enforceable with respect to the Bonds until the registration of the Guarantee (with respect to this issuance of the Bonds) is completed in accordance with the provisions of the Foreign Security Measures and the SAFE Notice.

See also “The Guarantee” and “Risk Factors — Risks relating to the Guarantee and the Bonds — The Guarantee is not enforceable before registration with SAFE and there may be uncertainty relating to the coverage and enforceability of the Guarantee”.

Issue Price	100 per cent.
Form and Denomination	The Bonds will be issued in registered form in the denomination of CNY1,000,000 each and integral multiples of CNY10,000 in excess thereof.
Interest	The Bonds will bear interest from and including 13 March 2014 at the rate of 4.8 per cent. per annum, payable semi-annually in arrears on the Interest Payment Date falling on or nearest to 13 March and 13 September in each year, commencing on 13 September 2014.
Issue Date	13 March 2014.
Maturity Date	The Interest Payment Date falling on, or nearest to, 13 March 2017.
Status of the Bonds	The Bonds constitute direct, unsubordinated, unconditional and, subject to Condition 4 of the Terms and Conditions of the Bonds, unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 of the Terms and Conditions of the Bonds, at all times rank at least equally with its other present and future unsecured and unsubordinated obligations.
Status of the Guarantee	The Guarantee constitutes direct, unsubordinated, unconditional and, subject to Condition 4 of the Terms and Conditions of the Bonds, unsecured obligations of the Guarantor. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 of the Terms and Conditions of the Bonds, at all times rank at least equally with its other present and future unsecured and unsubordinated obligations.

Negative Pledge	The Bonds will contain a negative pledge provision as further described in Condition 4 of the Terms and Conditions of the Bonds.
Events of Default	The Bonds will contain certain events of default provisions as further described in Condition 9 of the Terms and Conditions of the Bonds.
Taxation	All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong, the PRC or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law, as further described in Condition 8 of the Terms and Conditions of the Bonds. In such event, the Issuer or, as the case may be, the Guarantor shall, subject to the limited exceptions specified in the Terms and Conditions of the Bonds, pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.
Final Redemption	Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.
Redemption for Taxation Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount, together with accrued interest, at any time in the event of certain changes affecting taxes of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, as further described in Condition 6 of the Terms and Conditions of the Bonds.
Redemption for Change of Control	A Bondholder will have the right, at such Bondholder's option, to require the Issuer to redeem all, but not some only, of that Bondholder's Bonds at 102 per cent. of their principal amount, together with accrued interest up to, but excluding the relevant Put Date, upon the occurrence of a Change of Control with respect to the Guarantor. See Condition 6(c) of the Terms and Conditions of the Bonds — Redemption and Purchase — Redemption for Relevant Events.
Redemption for No Registration	A Bondholder will have the right, at such Bondholder's option, to require the Issuer to redeem all, but not some only, of that Bondholder's Bonds at their principal amount, together with accrued interest up to, but excluding the relevant Put Date, upon the occurrence of a No Registration Event. See Condition 6(c) of the Terms and Conditions of the Bonds — Redemption and Purchase — Redemption for Relevant Events.

Clearing Systems	<p>The Bonds will be issued in registered form and represented by the Global Certificate deposited with a sub-custodian for the CMU, the book-entry clearing system operated by the HKMA. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by the CMU.</p> <p>For persons seeking to hold a beneficial interest in the Bonds through Euroclear Bank S.A./N.V. ("Euroclear"), or Clearstream Banking, société anonyme ("Clearstream"), such persons will hold their interests through an account opened and held by Euroclear or Clearstream (as the case may be) with the CMU operator.</p>
Clearance and Settlement	<p>The Bonds have been accepted for clearance by the CMU under the following CMU Instrument Number: DBANFB14009. The Common Code is 104483305.</p>
Governing Law	<p>Hong Kong law.</p>
Trustee	<p>DB Trustees (Hong Kong) Limited</p>
Principal Paying Agent, Registrar, Transfer Agent and CMU Lodging Agent	<p>Deutsche Bank AG, Hong Kong Branch</p>
Listing	<p>Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only. It is expected that dealing in and listing of the Bonds on the Hong Kong Stock Exchange will commence on 14 March 2014.</p>
Further Issues	<p>Subject to compliance with the undertaking in Condition 4(b)(i), the Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Bonds, as further described in Condition 15 of the Terms and Conditions of the Bonds.</p>
Use of Proceeds	<p>See section entitled "Use of Proceeds".</p>
Selling Restrictions	<p>The Bonds will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Subscription and Sale".</p>

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Guarantor as at and for the periods indicated.

Selected Financial Information

The summary audited consolidated financial information as at and for the years ended 31 December 2011 and 2012 set forth below is derived from the Guarantor's published audited consolidated financial statements for the year ended 31 December 2012, prepared and presented in accordance with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance (which have been audited by PricewaterhouseCoopers, certified public accountants, and are included elsewhere in this Offering Circular) and should be read in conjunction with such published audited consolidated financial statements and the notes thereto. The summary unaudited consolidated financial information as at and for the six months ended 30 June 2012 and 2013 set forth below is derived from the Guarantor's published unaudited consolidated financial statements for the six months ended 30 June 2013, prepared and presented in accordance with IFRS and should be read in conjunction with such published unaudited consolidated financial statements and the notes thereto. Investors should note that the Company implemented the policy of transformation from business tax to value-added tax in 2012. Therefore the comparison between the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2011 and 2012 is not representative in this regard.

Consolidated Income Statement Data (prepared and presented in accordance with IFRS)

	Year ended 31 December		Six months ended 30 June	
	2011 (audited)	2012 (audited)	2012 (unaudited)	2013 (unaudited)
	(RMB'000)			
Revenues	82,403,130	85,253,317	40,213,354	41,624,394
Other operating income	1,061,451	1,719,626	864,750	651,749
Operating expenses				
Aircraft fuel	(29,229,011)	(29,871,506)	(14,670,924)	(14,978,528)
Gain on fair value movements of derivatives financial instruments	86,851	24,831	9,847	11,646
Take-off and landing charges	(8,350,181)	(9,065,649)	(4,308,392)	(4,579,511)
Depreciation and amortisation	(6,965,570)	(7,556,910)	(3,632,783)	(3,963,814)
Wages, salaries and benefits	(8,664,854)	(10,059,043)	(4,383,829)	(4,648,607)
Aircraft maintenance	(4,405,900)	(4,432,741)	(2,173,587)	(2,300,966)
Impairment (charges)/reversals	(638,316)	13,467	—	—
Food and beverages	(2,022,367)	(2,031,425)	(953,799)	(1,088,806)
Aircraft operating lease rentals	(4,128,420)	(4,438,169)	(2,067,134)	(2,148,731)
Other operating lease rentals	(491,901)	(609,111)	(294,895)	(288,502)
Selling and marketing expenses	(3,739,682)	(3,727,437)	(1,720,236)	(1,872,656)
Civil aviation infrastructure levies	(1,321,373)	(1,414,457)	(675,503)	(751,120)
Ground services and other charges	(567,552)	(594,057)	(292,507)	(339,619)
Office, administrative and other expenses	(8,853,751)	(8,982,628)	—	—
Indirect operating costs	—	—	(2,854,477)	(3,401,305)
Other expenses	—	—	(1,210,064)	(1,790,802)
Total operating expenses	(79,292,027)	(82,744,835)	(39,228,283)	(42,141,321)

	Year ended 31 December		Six months ended 30 June	
	2011 (audited)	2012 (audited)	2012 (unaudited)	2013 (unaudited)
	(RMB'000)			
Operating profit	4,172,554	4,228,108	1,849,821	134,822
Share of results of associates	75,435	103,209	40,377	(10,273)
Share of results of jointly controlled entities	31,437	29,960	17,895	8,794
Finance income	2,024,002	348,601	96,921	78,201
Finance costs	(1,462,727)	(1,697,474)	(846,601)	(773,213)
Exchange gains/(losses), net	—	—	(227,985)	1,174,286
Profit before income tax	4,840,701	3,012,404	930,434	612,617
Income tax	(264,229)	(204,801)	(176,649)	(79,852)
Profit for the year/period	<u>4,576,472</u>	<u>2,807,603</u>	<u>753,785</u>	<u>532,765</u>
Other comprehensive income/(loss) for the year/period				
Cash flow hedges, net of tax	(132,446)	(9,211)	2,886	216,476
Fair value movements of available-for-sale investments	486	(389)	—	—
Fair value movements of available-for-sale investments held by associates	(2,701)	2,188	4,108	(3,996)
Actuarial (losses)/gains on the defined benefit plan	—	—	22,963	(54,848)
Total comprehensive income for the year/ period	<u>4,441,811</u>	<u>2,800,191</u>	<u>783,742</u>	<u>690,397</u>
Profit attributable to:				
Equity Shareholders of the Guarantor	4,575,732	2,953,645	865,629	621,859
Non-controlling interests	740	(146,042)	(111,844)	(89,094)
	<u>4,576,472</u>	<u>2,807,603</u>	<u>753,785</u>	<u>532,765</u>
Total comprehensive income attributable to:				
Equity Shareholders of the Guarantor	4,441,071	2,946,271	895,208	785,774
Non-controlling interests	740	(146,080)	(111,466)	(95,377)
	<u>4,441,811</u>	<u>2,800,191</u>	<u>783,742</u>	<u>690,397</u>
Earnings per share attributable to equity shareholders of the Guarantor during the year				
Basic and diluted (RMB)	<u>0.41</u>	<u>0.26</u>	<u>0.08</u>	<u>0.05</u>

Consolidated Balance Sheet Data
(prepared and presented in accordance with IFRS)

	As at 31 December		As at 30 June
	2011 (audited)	2012 (audited)	2013 (unaudited)
	(RMB'000)		
Non-current assets			
Intangible assets	11,353,590	11,449,099	11,455,500
Property, plant and equipment	73,757,795	82,518,761	86,483,043
Lease prepayments	1,471,272	1,781,846	1,757,405
Advanced payments on acquisition of aircraft	10,968,344	11,894,891	14,169,892
Investments in associates	837,589	833,472	1,003,945
Investments in jointly controlled entities	423,256	418,159	426,953
Available-for-sale financial assets	240,380	234,690	281,775
Other long-term assets	1,929,834	1,958,256	2,096,621
Deferred tax assets	44,418	54,561	137,263
Derivative assets	4,365	—	56,648
	101,030,843	111,143,735	117,869,045
Current assets			
Flight equipment spare parts	1,555,544	2,087,978	2,177,639
Trade receivables	2,504,026	2,962,181	3,990,906
Prepayments and other receivables	2,410,895	3,368,648	3,665,075
Derivative assets	—	18,074	744
Restricted bank deposits and short-term bank deposits	2,894,287	1,726,251	2,383,054
Cash and cash equivalents	3,860,973	2,511,696	3,672,417
Assets held for sale	482,313	—	—
	13,708,038	12,674,828	15,889,835
Current liabilities			
Sales in advance of carriage	3,197,649	3,094,427	2,996,887
Trade payables and notes payable	2,692,624	3,075,325	3,419,681
Other payables and accrued expenses	16,267,287	16,256,225	16,726,022
Current portion of obligations under finance leases	2,459,259	2,605,269	2,589,090
Current portion of borrowings	18,171,130	22,639,955	22,684,311
Income tax payable	172,319	181,788	42,179
Current portion of provision for return condition checks for aircraft under operating leases	375,409	734,205	968,116
Derivative liabilities	51,063	35,813	25,738
	43,386,740	48,623,007	49,452,024
Net current liabilities	(29,678,702)	(35,948,179)	(33,562,189)
Total assets less current liabilities	<u>71,352,141</u>	<u>75,195,556</u>	<u>84,306,856</u>

	As at 31 December		As at 30 June
	2011 (audited)	2012 (audited)	2013 (unaudited)
	(RMB'000)		
Non-current liabilities			
Obligations under finance leases	17,801,563	19,252,709	17,547,790
Borrowings	23,603,463	23,096,163	29,597,028
Provision for return condition checks for aircraft under operating leases	2,923,717	3,064,557	2,933,089
Other long-term liabilities	2,047,099	1,635,537	1,709,787
Deferred tax liabilities	29,326	29,326	29,361
Post-retirement benefit obligations	2,859,945	3,259,529	6,347,146
Derivative liabilities	281,921	304,338	127,682
	<u>49,547,034</u>	<u>50,642,159</u>	<u>58,291,883</u>
Net Assets	<u>21,805,107</u>	<u>24,553,397</u>	<u>26,014,973</u>
Equity			
Capital and reserves attributable to the equity shareholders of the Guarantor			
Share capital	11,276,539	11,276,539	12,674,269
Reserves	<u>8,849,353</u>	<u>11,649,259</u>	<u>11,919,192</u>
	20,125,892	22,925,798	24,593,461
Non-controlling interests	<u>1,679,215</u>	<u>1,627,599</u>	<u>1,421,512</u>
Total equity	<u>21,805,107</u>	<u>24,553,397</u>	<u>26,014,973</u>

Quarterly Financial Information

On 30 October 2013, the Guarantor published its quarterly report (the “Quarterly Report”) for the three months ended 30 September 2013 (the “Third Quarter”) in accordance with applicable PRC regulations in relation to disclosure of information in quarterly reports for listed companies. The Quarterly Report contains certain consolidated financial information of the Guarantor for the third quarter prepared in accordance with the PRC Accounting Standards.

In the Quarterly Report, the Guarantor reported an increase in revenue, an increase in operating profit, an increase in investment gains and an increase in net profit in the Third Quarter as compared to the same period in 2012. The increase in revenue was primarily attributable to an increase in passenger traffic. The increase in net profit in the Third Quarter as compared to the third quarter of 2012 was primarily due to our quick response to changing market conditions, which resulted in better passenger capacity reallocation, improved aircraft utilisation and lower per unit costs. The Guarantor also reported an increase of bonds payable and monetary capital during the Third Quarter as compared to the same period of 2012 due primarily to the Guarantor’s issuance of RMB2.2 billion guaranteed bonds on 5 June 2013 and the first tranche of super short-term commercial paper in the amount of RMB4 billion on 7 June 2013.

The summary consolidated financial information as at and for the three months ended 30 September 2012 and 2013 set forth in the Quarterly Report has been prepared and presented in accordance with PRC Accounting Standards and has not been audited or reviewed by the Guarantor’s auditor. Consequently, such consolidated quarterly financial information should not be relied upon by

investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when using such information to evaluate the Guarantor's financial condition, results of operations and results (financial or otherwise). Such consolidated quarterly financial information as at and for the three months ended 30 September 2013 should not be taken as an indication of the expected financial condition, results of operations and results of the Guarantor for the full financial year ending 31 December 2013.

Significant Differences Between IFRS And PRC Accounting Standards

The Guarantor's accounting policies, which conform with IFRS, differ in certain aspects from PRC Accounting Regulations. Differences between IFRS and PRC Accounting Standards which have a significant effect on the consolidated profit attributable to the parent and consolidated net assets of the Guarantor are summarised as follows:

- (a) Under the PRC Accounting Standards, employees' post-retirement benefits are recognised upon payment. Under IFRS, such post-retirement benefits under defined benefit schemes are required to be recognised over the employees' service period using projected unit credit method.
- (b) Under the PRC Accounting Standards, on or before 30 June 2001, depreciation of aircraft was calculated to write off their costs on a straight-line basis over their expected useful lives of 10 to 15 years to their residual values of 3 per cent. With effect from 1 July 2001, depreciation of aircraft under the PRC Accounting Standards is calculated to write off their costs on a straight-line basis over their expected useful lives of 15 to 20 years to their residual values of 5 per cent. of costs, the change was applied prospectively which resulted in the difference in the carrying amounts under IFRS and the PRC Accounting Standards. These differences will be reduced progressively in the coming years, and will be fully eliminated when the related assets are fully depreciated or disposed.
- (c) The recognition and measurement of the fair values of the acquisition costs and identifiable assets and liabilities of Shanghai Airlines Co., Ltd. ("Shanghai Airlines") acquired are different under IFRS and the PRC Accounting Standards, which result in difference in the intangibles/goodwill recognised arising from the acquisition.
- (d) Differences as described above also have the corresponding impact on deferred tax.

The above analysis is prepared by and is the responsibility of the management of the Company. It is not meant to be an exhaustive description of all significant differences between IFRS and PRC Accounting Standards. In making an investment decision, investors must rely upon their own examination of the Company, the Terms and Conditions of the Bonds and the financial information included herein. Potential investors should consult their own professional advisers for an understanding of any differences that may exist between IFRS and PRC Accounting Standards, and how those differences might affect the financial information included herein.

RISK FACTORS

In addition to other information in this Offering Circular, you should carefully consider the following risk factors, together with all other information contained in this Offering Circular (including the financial statements and the notes thereto), before purchasing the Bonds. The risks and uncertainties described below may not be the only ones that the Company faces. Additional risks and uncertainties that the Company is not aware of or that the Company currently believes are immaterial may also adversely affect its business, financial condition or results of operations. If any of the possible events described below occur, the Company's business, financial condition or results of operations could be materially and adversely affected, the trading price of the Bonds could decline and investors may lose all or part of their investment.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

RISKS RELATING TO THE COMPANY

The continued effects of the global recession and negative macro-economic and geographic events could affect air travel and potentially impact the Company's profitability.

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 the Company's air transportation services depends largely on favourable general economic conditions, including the strength of global and local economies, low unemployment levels, strong consumer and business confidence levels and the availability of consumer and business credit. Ongoing events in 2012 and 2013 such as the continued political instability and regional turmoil in regions such as the Korean Peninsula and the Middle Eastern region, as well as the outbreak of avian flu, may continue to materially and adversely affect economic activity and financial markets, which would have an overall negative impact on international air travel, or may weaken demand for air travel to and from those areas. Furthermore, the demand for international air travel to specific destinations from China, the Company's home market, may be adversely affected if political relations between China and relevant countries deteriorate. For example, due to the political tensions between China and Japan, the Company's revenue derived from routes between China and Japan has dropped in 2013 and may continue to drop in the future. Certain flights and jet fleet resources that were originally allocated for these routes were diverted and re-allocated to China-to-Southeast Asia routes. Also, the recovery of the global economy may be tenuous and the global economy may lapse into a slowdown again in 2014.

Furthermore, 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 the Company's air transport services to slow down and having an adverse impact on its business, financial condition and results of operation. In addition, whilst the PRC government instituted certain initiatives in response to the slowdown in the PRC economy, a rapid increase in liquidity in the market as a result of fiscal stimulus measures has resulted in the PRC government implementing a number of measures to control such increase, including adjusting interest rates. These foregoing factors and any further declines in economic activity may reduce domestic or international demand and the speed at which domestic or international production capacity grows may slow down significantly, which would have a material adverse effect on the Company's revenues, results of operations and liquidity. For example, the Company's cargo business is highly dependent upon servicing the logistics needs of the semi-conductor industry. A slowdown in this particular industry could adversely affect this segment of the Company's business.

The Company utilises fuel hedging arrangements which may result in losses.

Fuel costs constitute a significant portion of the Company's operating costs and, in 2012 and the six months ended 30 June 2013, accounted for approximately 36.1 per cent. and 35.5 per cent. of its total operating costs. Foreign fuel prices are mainly affected by supply and demand dynamics in the global market, whilst domestic jet fuel prices are primarily controlled by PRC government authorities such as the National Development and Reform Commission ("NDRC") and CAAC. The Company generally alleviates 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, the Company also entered into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel during previous years.

In the beginning of 2009, the PRC government required its prior approval to be obtained before the Company can enter into fuel hedging contracts. In October 2011, the Company obtained approval from the PRC government to allow it to enter into overseas fuel hedging contracts. For the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, the Company hedged 17.0 per cent., 0 per cent. and 0 per cent. of its annual fuel consumption, respectively. In 2013, the Company developed a derivatives transaction management system, which is expected to build the foundation for a more flexible and efficient financial derivatives business and effectively control fuel costs. 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 the Company's fuel hedging arrangements. In addition, where it seeks to manage the risk of fuel price increases by using derivative contracts, the Company can give no assurance that, at any given point in time, its fuel hedging transactions will provide any particular level of protection against increased fuel costs. All crude oil option contracts signed in past years were settled by 31 January 2013.

The Company's indebtedness and other obligations may have a material adverse effect on its liquidity and operations.

The Company has 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 the Company's total liabilities exceeded its total assets. As at 30 June 2013, the Company's total liabilities were RMB107,743.9 million. As at the same date, the Company's current liabilities exceeded its current assets by RMB33,562.2 million. The Company's total bank borrowings amounted to RMB52,281.3 million among which its short-term bank loans and short-term debentures outstanding totalled RMB14,350.2 million as at 30 June 2013. The amount of the Company's debt and obligations under finance leases maturing with the next five years is RMB2.94 million in 2014, RMB3.05 million in 2015 and RMB8.24 million from 2016 to 2018. The Company's substantial indebtedness and other obligations could materially and adversely affect its business and operations, including requiring it 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 its vulnerability to economic recessions, reducing its flexibility in responding to changing business and economic conditions, placing it at a disadvantage when compared to competitors that have less debt, limiting its ability to arrange for additional financing for working capital, capital expenditure and other general corporate purposes at all or on terms that are acceptable to it and limiting its ability to satisfy payment of its existing indebtedness and other obligations under its indebtedness.

Moreover, the Company is largely dependent upon cash flows generated from its operations and external financing (including short-term bank loans) to meet its debt repayment obligations and working capital requirements, which may reduce the funds available for other business purposes. If the Company's operating cash flow is materially and adversely affected by factors such as increased competition, a significant decrease in demand for its services or a significant increase in jet fuel

prices, its liquidity would be materially and adversely affected. The Company has arranged financing with domestic and foreign banks in China as necessary to meet its working capital requirements. The Company has also tried to ensure its liquidity by structuring a substantial portion of its short-term bank loans to be rolled over upon maturity. However, there is no assurance that such measures would be sufficient to meet the Company's debt payment obligation and working capital requirements at any time and the Company may not be able to roll-over or refinance its existing debts. The Company's ability to obtain financing may be affected by its financial position and leverage, its credit rating and investor perception of the aviation industry, as well as by prevailing economic conditions and the cost of financing in general. If the Company is unable to obtain adequate financing for its capital requirements, its liquidity and operations would be materially and adversely affected.

In addition, the airline industry overall is characterised 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 the Company's control, the expenses relating to the operation of any given flight do not vary proportionately with the number of passengers carried, whilst 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.

The Company may not be able to secure future financing at terms acceptable to it or at all.

The Company requires significant amounts of external financing to meet its capital commitments for acquiring and upgrading aircraft and flight equipment and for other general corporate needs. In addition, the Company generally acquires aircraft through either long-term capital leases or operating leases. In the past, the Company has obtained guarantees from Chinese banks in respect of payments under its foreign loan and capital lease obligations. However, the Company can give no assurance that it will be able to roll over its 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 its ability to borrow additional funds or enter into international aircraft lease financings or other additional financing on acceptable terms. The Company is still in the process of obtaining financing for some aircraft that it has scheduled for delivery in 2014 and in future years. In addition, if the Company is not able to arrange financing for its aircraft on order, the Company may seek to defer aircraft deliveries or use cash from operating or other sources to acquire the aircraft.

The Company's ability to obtain financing may also be impaired by its financial position, its leverage and its credit rating. In addition, factors beyond its 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 its ability to secure financing at reasonable costs or at all. The Company currently plans to acquire new aircraft of a total value of approximately US\$4.3 billion in 2014 and US\$5.3 billion in 2015. If the Company is unable to obtain financing for a significant portion of its capital requirements, its ability to expand its operations, purchase new aircraft, pursue business opportunities which it believes to be desirable, withstand a continuing or future downturn in its business, or respond to increased competition or changing economic conditions may be impaired. The Company has and in the future is likely to continue to have substantial debt. As a result, the interest cost associated with this indebtedness might impair its future profitability and cause its earnings to be subject to a higher degree of volatility. Whilst the PRC government has, in the past, injected capital into PRC airline companies to counter the industry downturn caused by the global financial crisis, there is no assurance that it will do so in the future.

The Company is subject to exchange rate fluctuation risk.

The Company operates its business in many countries and territories. The Company generates revenue in different currencies and its foreign currency liabilities are typically much higher than its foreign currency assets. The Company's purchases and leases of aircraft are mainly priced and settled in currencies such as U.S. dollars. Fluctuations in exchange rates will affect the Company's costs incurred from foreign currency purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. As at 30 June 2013, the Company's total interest-bearing liabilities denominated in foreign currencies converted to Renminbi amounted to RMB56,005 million, of which the U.S. dollar liabilities accounted for 94.54 per cent. 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 the Company's profitability and development. The Company usually uses 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 sale of Japanese Yen or the purchase of U.S. dollars at fixed exchange rates. As at 30 June 2013, open foreign currency hedging contracts held by the Company, which will expire between 2014 and 2018, amounted to a notional amount of US\$28 million (30 June 2012: US\$35 million).

The Company recorded an increase in net exchange gains during the past two financial years. As at 31 December 2011 and 2012, the Company's exchange gains were RMB1,872 million and RMB148 million, respectively. As at 30 June 2013, the Company recorded exchange losses and exchange gains in the amount of RMB1,174 million. As a result of the large value of existing net foreign currency liabilities denominated in U.S. dollars, the Company's results will be adversely affected if the Renminbi depreciates against the U.S. dollar in the future. The Company's foreign exchange fluctuation risks are also subject to other factors beyond its control.

The Company is subject to interest rate fluctuation risk.

The Company's total interest-bearing liabilities (including long-term and short-term loans and finance leases payable) as at 30 June 2013 were RMB72,418.2 million, of which short-term liabilities accounted for 34.89 per cent., and long-term liabilities accounted for 65.11 per cent., respectively. A portion of the long-term interest-bearing liabilities carried variable interest rates. Both the Company's variable and fixed rate obligations are affected by fluctuations in current market interest rates.

The Company's interest-bearing liabilities are mainly denominated in U.S. dollars and Renminbi. As at 31 December 2011 and 2012, and 30 June 2013, its liabilities denominated in U.S. dollars accounted for 69.1 per cent., 74.5 per cent., and 73.11 per cent., respectively, of its total liabilities, whilst liabilities denominated in Renminbi accounted for 28.8 per cent., 20.5 per cent. and 22.66 per cent., respectively, of its total liabilities. Fluctuations in U.S. dollar and Renminbi interest rates have significantly affected the Company's financing costs. A substantial majority of the Company's borrowings denominated in Renminbi are linked to benchmark five-year lending rates published by the People's Bank of China ("PBOC"). From April 2006 to December 2007, the PBOC raised the benchmark five-year lending rate seven times from 6.39 per cent. to 7.83 per cent. Beginning in September 2008, the PBOC decreased the benchmark five-year lending rate five times from 7.83 per cent. to 5.94 per cent. in December 2008. Since then, the PBOC has raised the benchmark five-year lending rate five times from 5.94 per cent. to 7.05 per cent. in July 2011. A substantial majority of the Company's borrowings denominated in U.S. dollars are linked to floating LIBOR rates which decreased overall in 2011, increased overall in 2012 and decreased overall in 2013. The relevant lending rates may increase in the future as a result of reasons beyond the Company's control, and may result in an adverse effect on its business, prospects, cash flow, financial condition and results of operations. In addition, the Company expects to issue bonds and notes or enter into additional loan agreements and aircraft leases in the future to fund its operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates.

The Company may suffer losses in the event of an accident or incident involving its aircraft or any other airline.

As an airline company operating a large jet fleet, the Company is subject to risks relating to the provision of aviation services. An accident or incident involving one of the Company's aircraft could result in delays, require repair or replacement of a damaged aircraft, which could result in consequential temporary or permanent loss from service and/or significant liability to injured passengers and others. Unforeseeable or unpredictable events such as inclement weather, mechanical failures, human error, aircraft defects and other force majeure events may affect flight safety, which could result in accidents and/or incidents of passenger injuries or deaths that could lead to significant injury and loss claims. Although the Company believes that it currently maintains 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 its results of operations and financial condition. In addition, any aircraft accident or incident, even if fully insured, could cause a public perception that the Company is not as safe or reliable as other airlines, which would harm its competitive position and result in a decrease in its operating revenues. Moreover, a major accident or incident involving the aircraft of any of the Company's competitors may cause demand for air travel in general to decrease, which would adversely affect the Company's results of operations and financial condition.

The Company's insurance coverage and costs have increased substantially, and could have an adverse effect on its operations.

Following the events of 11 September 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. The Company renews its insurance policies on a yearly basis. However, if the insurance carriers further reduce the amount of insurance coverage available or increase the premium for such coverage when the Company renews its insurance coverage and/or if the PRC government declines to renew its insurance coverage for the Company, the Company's financial condition and results of operations may be materially and adversely affected.

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

The Company may from time to time expand its business through acquisitions of airline companies or airline-related businesses. For example, the Guarantor entered into an agreement with Shanghai Airlines on 10 July 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 the Guarantor's shares issued as at the date nearest to the acquisition date, with adjustments to reflect specific restrictions to certain shares that were issued. On 28 January 2010, the Guarantor completed the exchange of 1,694,838,860 A Shares for all existing issued shares of Shanghai Airlines. In addition, on 20 December 2010, the Guarantor's subsidiary, China Cargo Airlines Co., Ltd. ("China Cargo Airlines"), entered into separate acquisition agreements with Great Wall Airlines Company Limited ("Great Wall Airlines") and Shanghai Airlines Cargo Int'l Co., Ltd. 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 the Ministry of Commerce ("MOFCOM"), and were completed on 1 June 2011. In addition, the Guarantor entered into an equity transfer agreement on 22 August 2012 with its controlling shareholder, CEA Holding, by which the

Guarantor acquired the remaining 20 per cent. of the equity interest in China United Airlines Co., Ltd. (“China United Airlines”) for a consideration of RMB83.95 million (the “China United Airlines Acquisition”) from CEA Holding. China United Airlines primarily provides domestic passenger and freight air transportation services, and is now a wholly-owned subsidiary of the Guarantor.

The Company is devoting significant resources to the integration of its operations in order to achieve the anticipated synergies and benefits of the absorption and acquisitions mentioned above. However, 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 its management and workforce;
- accessing its 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 its other businesses;
- strengthening its operational, financial and management controls, particularly those of its newly acquired assets and subsidiaries, to maintain the reliability of its reporting processes;
- difficulty with exercising control and supervision over the newly acquired operations, including failure to implement and communicate its 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.

The Company can give no assurance that it 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 the Company depends significantly on integrating the pre-absorption Shanghai Airlines and other acquired employee groups with its employee groups and on maintaining productive employee relations. In the event that the Company is unable to efficiently and effectively integrate newly acquired companies or airline-related businesses, the Company 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 its existing businesses.

The Company’s planned joint venture airline with Jetstar Airways (a wholly owned subsidiary of Qantas Airlines), Jetstar Hong Kong, may not proceed and if it does proceed, may not be successful.

On 23 March 2012, the Guarantor entered into a binding memorandum of understanding (the “MOU”) with Jetstar Airways Pty Limited, a wholly owned subsidiary of Qantas Airlines (“Jetstar Airways”), to establish a joint venture that consists of a new low-cost airline to be based in Hong Kong, Jetstar Hong Kong Airways (“Jetstar Hong Kong”). The Company and Jetstar Airways have made equal initial capital contributions of US\$57.5 million each, and Jetstar Hong Kong will have a total initial capital of US\$115 million. Subject to certain terms and conditions, the Company and Jetstar Airways will equally contribute capital amounts to increase the capital of Jetstar Hong Kong to US\$198 million. Under the terms of the MOU, the Guarantor and Jetstar Airways will have equal equity interests in Jetstar Hong Kong. On 24 August 2012, the Issuer entered into a shareholders’ agreement (the “Shareholders’ Agreement”) with Jetstar International Group Holdings Co., Limited (“JIGH”), a wholly owned Hong Kong-based subsidiary of Qantas Airlines, pursuant to which the Issuer and JIGH invested in Jetstar Hong Kong. In September 2012, Jetstar Hong Kong obtained its Certificate of Incorporation in Hong Kong. In January 2013, Jetstar Hong Kong successfully passed MOFCOM’s merger review. On 5 June 2013, the Issuer, JIGH and Go Harvest Investments Limited (“Shun Tak Investor”), a wholly owned Hong Kong-based subsidiary of Shun Tak Holdings Limited entered into a restated and amended shareholders’ agreement (the “Restated and Amended Shareholders Agreement”). Pursuant to the Restated and Amended Shareholders Agreement, Shun Tak Investor became a new strategic shareholder of Jetstar Hong Kong. However, the establishment of Jetstar Hong Kong remains subject to the execution of certain agreements and the receipt of other relevant regulatory and governmental approvals. As such, the Company can give no assurance that it and Jetstar Airways will proceed, or will be able to execute such agreements and obtain such approvals and form Jetstar Hong Kong within the timeframe contemplated by the MOU. In addition, Jetstar Hong Kong may not be able to secure the relevant licenses and approvals for its operations, or which are necessary for it to commence operations.

In addition, even if the Company and Jetstar Airways decide to proceed with the definitive agreements for the establishment of Jetstar Hong Kong, and before Jetstar Hong Kong can actually commence operations, it will need to:

- secure the relevant licenses, permits and approvals for its operations;
- establish suitable route networks, which involves securing the necessary airport time slots, landing rights and related approvals and clearances for routes and flight times;
- acquire the necessary aircraft fleet, through acquisitions or leases, to support its operations;
- comply with the relevant laws and regulations;
- identify and acquire suitable facilities and properties and secure land use rights; and
- hire competent and qualified management, flight crew, ground personnel and employees.

The Company can give no assurance that it will be able to complete these tasks in a timely manner, within the expected budget, or at all. Failure to do so could result in a material adverse effect on the business, financial condition and reputation of Jetstar Hong Kong and possibly the Company’s own. In addition, given the intended geographic coverage of Jetstar Hong Kong, overlapping coverage and competition on some routes may occur, which could affect the Company’s market share on certain routes. In addition, there is intense competition in the PRC from existing carriers, which generally service the same routes that are contemplated for Jetstar Hong Kong. The Company can give no assurance that Jetstar Hong Kong will be able to adequately compete against these existing carriers, which may have better brand recognition, financial resources, developed route networks, fares and product offerings.

Furthermore, the Company does not have experience operating in the low-cost market and may therefore be required to rely on its joint venture partner, Jetstar Airways, for its expertise, experience and knowledge with respect to the daily operations of a low-cost carrier. The overall success of this venture is uncertain, and the Company can give no assurance that Jetstar Hong Kong will be profitable or successful or that its results of operations will not materially adversely affect the Company's results of operations and financial condition.

The Company operates in a highly competitive industry.

The Company faces intense competition in each of the domestic, regional and international markets that the Company serves. In its domestic markets, the Company competes against all airline companies and logistics companies that have the same routes, including smaller domestic airline companies that operate with costs that are lower than the Company's. According to figures published by CAAC, the market share of the three largest airlines in China in terms of RTKs decreased from 80 per cent. in 2011 to 77.5 per cent. in 2012. In its regional and international markets, the Company competes against international airline companies, international air alliances and logistics companies, such as UPS, FedEx, and DHL, that have significantly longer operating histories, greater name recognition, more resources or larger sales networks than the Company has, or utilise more developed reservation systems than the Company's. See the section headed "Industry Overview" for more details. The PRC government's open sky policy has resulted in additional flights being operated by international air carriers to China, which may result in the Company losing market share, reduced airfare or diminished profitability relating to routes from its strategic hubs of Shanghai, Kunming and Xi'an. The public's perception of the safety records of Chinese airlines also materially and adversely affects its ability to compete against its international competitors.

Moreover, the aviation industry has been evolving with new business models globally. Low-cost carriers ("LCC") generally have lower fares and fewer amenities, and may charge for additional items such as food, priority boarding, seat allocation, and baggage etc. LCCs offering less service and lower fares under this new business model may have a significant cost advantage compared to traditional airlines. The Company faces fierce competition from LCCs, especially LCCs such as Spring Airlines and Juneyao Airlines that have operations in the Company's bases such as Shanghai, Kunming and Xi'an. Their lower prices on certain routes such as routes between Shanghai and Hainan, and between Shanghai and northeast China significantly impacted our pricing strategies on these routes. In response to competition, the Company has, at various times in the past, lowered its airfares for certain of its routes, and the Company may do the same in the future. Increased competition and pricing pressures from competition may have a material adverse effect on the Company's financial condition and results of operations.

The Company may be unable to retain key management personnel.

The Company is dependent on the experience and industry knowledge of its key management employees, and there can be no assurance that the Company will be able to retain them. Any inability to retain its key management employees, or attract and retain additional qualified management employees, could have a negative impact on the Company.

The Company's controlling shareholder, CEA Holding, holds a majority interest in the Guarantor, 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. As at 30 June 2013, CEA Holding held directly or indirectly 64.35 per cent. of the Guarantor's equity interests on behalf of the PRC government. As a result, CEA Holding could potentially elect the majority of the Guarantor's Board of Directors and otherwise be able to control it. CEA Holding also has sufficient voting control to effect transactions without the concurrence of the Guarantor's minority shareholders. The interests

of the PRC government as the ultimate controlling person of the Guarantor and most of the other major PRC airlines could conflict with the interests of the Guarantor's minority shareholders. Although the CAAC currently has a policy of equal treatment of all PRC airlines, the Company can give no assurance that the CAAC will not favor other PRC airlines over the Company.

As a controlling shareholder, CEA Holding has the ability to exercise a controlling influence over the Company's 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 the Company.

The Company engages in related party transactions, which may result in a conflict of interests.

The Company has 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 which the Company receives a number of important services, including support for in-flight catering and assistance with importation of aircraft, flight equipment and spare parts. The Company's transactions with CEA Holding and its members are conducted through a series of arm's length contracts, which the Company has entered into with CEA Holding and its members in the ordinary course of business. However, because the Company is controlled by CEA Holding and CEA Holding may have interests that are different from its interests, the Company can give no assurance that CEA Holding will not take actions that will serve its interests or the interests of its members over the Company's interests.

The Company may not be able to accurately report its financial results or prevent fraud if the Company fails to maintain effective internal controls over financial reporting, resulting in adverse investor perception, which in turn could have a material adverse effect on its reputation.

The Guarantor is required under relevant United States securities rules and regulations to disclose in the reports that it files or submits under the Exchange Act to the United States Securities and Exchanges Commission, including its annual report on Form 20-F, a management report assessing the effectiveness of its internal control over financial reporting as at the end of the fiscal year. The Guarantor's registered public accounting firm is also required to provide an attestation report on the effectiveness of its internal controls over financial reporting. The Company's management concluded that its internal controls over financial reporting were effective as at 31 December 2013. However, the Company may discover other deficiencies or material weaknesses in the course of its future evaluation of its internal controls over financial reporting and the Company 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 its financial statements, thereby adversely affecting its business, operations, and reputation, including negatively affecting its market performance in the securities markets and decreasing potential opportunities to obtain financing in the capital markets.

As part of its business strategy, the Company has adopted various measures for the internationalisation of its business and to enhance its competitiveness in the international long-distance flight routes. Due to the differences in certain legal and market environments, the Company has encountered certain challenges during the course of developing its overseas business. The Company has also discovered that an individual overseas sales department had certain

deficiencies in implementing its internal controls, resulting in the manager of the department misappropriating the department's assets between 2010 and April 2011. The Company has already adopted and will continue to implement measures in order to enhance the internal control of its overseas offices and to ensure the continued development of its overseas business.

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

The Company relies heavily on computer, communications, flight equipment and other technology systems to operate its business and enhance customer service. Substantially all of its tickets are issued to passengers as electronic tickets, and the Company depends on its computerised reservation system to be able to issue, track and accept these electronic tickets. In addition, the Company relies on other automated systems for crew scheduling, flight despatch 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 the Company's control. The Company can give no assurance that the measures it has 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 its flights, and could have an adverse impact on the Company's business operations, profitability, reputation and customer services, including resulting in liability on its part to pay compensation to customers.

Interruptions or disruptions in service at one or more of the Company's primary market airports could have an adverse impact on the Company.

The Company's business is heavily dependent on its operations at its primary market airports in Shanghai, namely, Hongqiao International Airport and Pudong International Airport and its 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 its primary market airports could adversely impact its operations.

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 ongoing security concerns and cost burdens.

The aviation industry as a whole has been beset with high-profile terrorist attacks, most notably on 11 September 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 the Company 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 the Company and the airline industry. In addition, potential or actual terrorist attacks may result in substantial flight disruption costs caused by the grounding of fleet, significant increase of security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and RPK.

The Company's tax liability may increase significantly following the expiry of unutilised tax losses.

The Company's tax liability calculated at the applicable corporate income tax in recent years has been significantly offset by the availability of unutilised tax losses. The Company currently expects these tax losses to expire in the year 2014. Accordingly, the amount of income tax which the Company is liable to pay may increase significantly after 2014, resulting in a material adverse effect on its

financial condition and results of operations. The discharge by the Company of this additional tax liability could result in the non-availability of funding which would otherwise be available to meet the Guarantor's obligations under the Guarantee or to be provided to the Issuer to enable it to meet its obligations under the Bonds.

RISKS RELATING TO THE AVIATION INDUSTRY

The Company's 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;
- jet fuel pricing;
- air carrier certification and air operator certification; and
- aircraft registration and aircraft airworthiness certification.

The Company's 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 regulation, the Company may face significant constraints on its flexibility and ability to expand its business operations or to maximise its profitability. See "Description of the Company's Business — Regulation" for further detail.

The Company's 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. The Company's ability to provide safe air transportation depends on the availability of qualified and experienced pilots 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, the Company's ability to provide safe air transportation will be compromised and its financial condition and results of operations may be materially and adversely affected.

The Company's results of operations tend to be volatile and fluctuate due to seasonality.

The aviation industry is characterised by annual high and low travel seasons. The Company's 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 the Company's flights and alternative routes, the degree of competition from other airlines and alternative means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. As a result, the Company's results tend to be volatile and subject to rapid and unexpected change.

The revocation of preferential treatment on airport fees for domestic airlines' international routes may substantially increase the Company's operating costs, which could result in a material adverse effect on its financial condition and results of operations.

In the past, domestic airlines, such as the Company, were granted a 40 per cent. discount on take-off and landing charges, as well as charges on airlines for the use of airports and airport services charged over international routes to and from domestic destinations. However, according to the Circular on Adjustment of the Standards of Fees Charged by Civil Airports for International and Hong Kong and Macau Flights of Domestic Airlines (《關於調整內地航空公司國際及港澳航班民用機場收費標準的通知》), jointly issued by CAAC and NDRC on 4 January 2013, such preferential treatment has been revoked from 1 April 2013. As a result, domestic airlines and foreign airlines are treated equally in this respect. Accordingly, the Company has to pay higher airport fees for its international routes to and from domestic destinations, and its operating costs with respect to such routes may increase substantially. Given the highly competitive nature of the civil aviation industry, the Company may not be able to increase ticket prices and pass this increase in cost on to passengers. Therefore, the profit margin with respect to the Company's international routes may be reduced, which may materially and adversely affect the Company's financial condition and results of operations.

The Company expects to face substantial competition from the rapid development of the Chinese high speed rail network.

The PRC government is aggressively implementing the expansion of its high-speed rail ("HSR") 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 centres than competing airports could enhance the relative competitiveness of the railway service and affect the Company's market share on some of its key routes, in particular its routes of between 500km to 800km. HSR links between Ningbo and Hangzhou, and from Hangzhou to Nanjing, commenced operations in July 2013, and HSR links between Xiamen and Shenzhen, between Hangzhou and Changsha, and between Hefei and Fuzhou will commence operations in 2014 and additional HSR links are expected to commence operation in the future. Increased competition and pricing pressures from railway service may have an adverse effect on the Company's business, financial condition and results of operations. For example, the Shanghai-Beijing HSR link commenced operation in July 2011. Revenue from the Company's Shanghai-Beijing route decreased from 4.7 per cent of total revenue in 2011 to 3.8 per cent. in 2012, and profit from this route decreased by 68.2 per cent. for the corresponding period.

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, such as the European Union Emissions Trading System, to address, among other things, aircraft noise and aircraft engine emissions, the use and handling of hazardous materials, aircraft age and environmental contamination remedial clean-up measures. 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. The Company has significant expenditures with respect to environmental compliance, which may affect its operations and financial condition. For example, the Company implemented a low-carbon emissions scheme, with which over 90 per cent. of its planes comply, which aligns with its environmentally-friendly growth strategy to minimise the environmental impact of its operations. The Company has expedited the application of new civil aviation technologies, continuously focused on the development of renewable resources and concentrated on the invention and application of new technologies and applications to achieve "greener" flying. The Company is working with China National Petroleum Corporation ("CNPC") to conduct experimental research on bio-fuels, which is being developed as a possible alternative to kerosene jet fuel and could

lead to reduced carbon dioxide emissions of 30 per cent. However, these measures have resulted in significant costs and expenditures. The Company expects to continue to incur significant costs and expenditures on an ongoing basis to comply with environmental regulations, which could restrict its ability to modify or expand facilities or continue operations, or could require it to install additional costly pollution control equipment.

Limitations on foreign ownership of PRC airline companies may affect the Company's access to equity capital markets funding or business opportunities.

The current CAAC policies limit foreign ownership in a PRC airline. Under these limits, non-PRC residents and Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a PRC airline company. As at 30 June 2013, approximately 33.08 per cent. of the Guarantor's total outstanding shares were held by non-PRC, 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, the Company's access to funding in the international equity capital markets may be limited. This restriction may also limit the opportunities available to the Company to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. The Company can give no assurance 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 the Company's financial condition and results of operations.

The availability, price volatility and cost of jet fuel has a significant impact on the Company's financial condition and results of operations. In the past, jet fuel shortages have occurred in China and, on limited occasions, caused the Company to delay or cancel flights. Although jet fuel shortages have not occurred since the end of 1993, the Company can give no assurance 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, Organisation 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 the Company's aircraft decreases as they advance in age, resulting in an overall increase in its aviation fuel costs. These and other factors that impact the global supply and demand for aviation fuel may affect the Company's financial performance due to its sensitivity to fuel prices.

From 2011 to 2012, the Company's fuel expenses increased by 2.20 per cent., partially as a result of the expansion of its scale of operations, an increase of 2.1 per cent. in the average weighted price of jet fuel in 2012 as compared to 2011 and the Company's implementation of the policy of shifting away from business tax and moving to value-added taxes in 2012, in accordance with the Pilot Scheme for Transforming from Business Tax to Value-added Tax (《營業稅改徵增值稅試點方案》) and the Notice on Pilot Programme of the Transforming from Business Tax to Value-added Tax in Transportation Industry and certain Modern Service Industries in Shanghai (《關於在上海市開展交通運輸業和部分現代服務業營業稅改徵增值稅試點的通知》) promulgated by the Ministry of Finance and the State Administration of Taxation on 16 November 2011. From the six months ended 30 June 2012 to the six months ended 30 June 2013, the Company's fuel expenses increased by 2.09 per cent.. Jet fuel prices were volatile in 2011, 2012 and 2013, with political instability and turmoil in certain Middle Eastern countries. Whilst there was a slight increase during the first quarter of 2012, fuel prices began decreasing and reached its lowest point in July 2012 since January 2012. However, between August and October 2012, fuel prices gradually returned to the same price level as in the first quarter of 2012. After climbing to a peak in the first quarter of 2013, fuel prices gradually fell and experienced slight fluctuation ever since. In addition, the NDRC has adjusted gasoline and diesel prices in China from time to time, taking into account changes in international oil prices, thereby

affecting jet fuel prices. As such, the Company can give no assurances that jet fuel prices will not further fluctuate in the future. Due to the highly competitive nature of the airline industry, the Company may be unable to fully or effectively pass on to its customers any increased jet fuel costs that it may encounter in the future.

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 the Company's services and have a material adverse effect on its 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 the Company does 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 with some cases resulting in fatalities. More recently, the H7N9 strain of the avian flu has been causing severe disease in China, killing approximately one fifth of all those it infects. There have been 126 reported cases as at 1 May 2013, with all but one of which being diagnosed in China according to the World Health Organisation. The Company is unable to predict the potential impact, if any, that the outbreak of the H7N9 strain of the avian flu or any other serious contagious disease or epidemic such as the recent outbreak of the deadly E.coli bacteria in Germany, or another outbreak of SARS or influenza A may have on its business.

Natural disasters, such as earthquakes, snowstorms, floods or volcanic eruptions such as that of Eyjafjallajökull in Iceland in April and May 2010, the natural disasters in Japan in early 2011 and the earthquake in Ya'an, China in April 2013 may disrupt or seriously affect air travel activity. Any period of sustained disruption to the airline industry may have a material adverse effect on the Company's business, financial condition and results of operations.

RISKS RELATING TO THE PRC

Changes in the economic policies of the PRC government may materially and adversely affect the Company's 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 the Company's business operations and may also materially and adversely affect its financial condition and results of operations.

Foreign exchange regulations in the PRC may result in fluctuations of the Renminbi and affect the Company's ability to pay any dividends or to satisfy its foreign exchange liabilities.

A significant portion of the Company's revenue and operating expenses are denominated in Renminbi, whilst a portion of its 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 SAFE is obtained. As a foreign invested enterprise approved by MOFCOM, the Company 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. The Company can also retain foreign exchange in its current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or to pay dividends. The relevant PRC government authorities may limit or eliminate the Company's 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 the Company's ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. The Company can give no assurance that it will be able to obtain sufficient foreign exchange to pay dividends to overseas shareholders, if any, or satisfy its foreign exchange liabilities.

Furthermore, the value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, PRC government policies, domestic and international economies, political conditions and the supply and demand of currency. On 21 July 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 per cent. in 2008. Whilst 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 per cent. in 2010 and by approximately 5.1 per cent. in 2011. In May 2007, the PRC government widened the daily trading band of the Renminbi against a basket of certain foreign currencies from 0.3 per cent. to 0.5 per cent. In April 2012, the PBOC further widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi can appreciate or depreciate by 1.0 per cent. from the PBOC central parity rate, effective 16 April 2012. 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. Any resulting fluctuations in exchange rates as a result of such policy changes may have an adverse effect on the Company's financial condition and results of operations.

The operations of the Company may be affected by rising inflation rates and higher labour costs within the PRC.

Inflation rates within the PRC have been on a sharp uptrend in recent years. The PRC government has undertaken 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 the Company's 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. PRC inflation rates have been in a general downtrend after peaking in the middle of 2011, and increased to 3.6 per cent. as at March 2012. The national consumer price index increased by 2.6 per cent. in 2013 compared to 2012. The Company can give no assurance that inflation rates will not continue to increase in the future. If inflation rates rise beyond the Company's expectations, the costs of its business operations, including wages and employee benefits, may become significantly higher than it has anticipated, and it may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increased operating costs. Furthermore, the PRC government has promulgated new laws and regulations to enhance labour protection in recent years, such as the Labour Contract Law and the Social Insurance Law. As the interpretation and implementation of these new laws and regulations are still evolving, our employment practice may not be at all times be deemed in compliance with the new laws and regulations, and we may incur significant compliance costs in the future. As a result, further inflationary pressures and the possibility of incurring significant compliance costs and labour dispute liabilities within the PRC may have a material adverse effect on the Company's business, financial condition and results of operations, as well as its liquidity and profitability.

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

Prior to 1 January 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 per cent. under the relevant PRC Enterprise Income Tax Law. On 16 March 2007, China passed a new enterprise income tax law, or the "EIT Law", which took effect on 1 January 2008. The EIT Law imposes a uniform income tax rate of 25 per cent. for domestic enterprises and foreign invested enterprises. Business enterprises enjoying preferential tax treatment that was extended for a fixed term prior to 1 January 2008 will still be entitled to such treatment until such fixed term expires. Certain of the Company's subsidiaries are entitled to preferential tax treatment, allowing the Company to enjoy a lower effective tax rate that would not otherwise be available to it. Since 1 January 2010, the Company's revenues from the provision of international transportation services have been exempt from business tax, in accordance with a notice jointly issued by the PRC finance and tax authorities. The Company also enjoys tax exemptions on the import of maintenance equipment and subsidies in respect of certain domestic routes. To the extent that there are any withdrawals of, or changes in, its preferential tax treatment, tax exemptions or subsidies from which the Company benefits, or increases in the applicable effective tax rate, its tax liability may increase or its revenue may decrease 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 may arise as the legal system in the PRC continues 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. Even though the Company has full or majority board control over the management and operation of all of its 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. The Company 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. As a result, there is substantial uncertainty as to the legal protection available to the Company and investors of the Bonds. 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, the Company 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 of the Bonds and to the Company in the event of any claims or disputes with third parties.

Any litigation in the PRC may be protracted and result in substantial costs and diversion of the Company's resources and management attention.

The Issuer may be categorised as a PRC resident enterprise under the enterprise income tax law of the PRC and becomes subject to a corporate tax rate that is higher than the corporate tax rate in Hong Kong.

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management organisation" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the EIT Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the Issuer's "de facto management organisation" is within the territory of the PRC, it may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside the PRC. As at the date of the Offering Circular, the Issuer confirms that it has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or with incomes that have no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent. on its income sourced inside the PRC, and such income tax shall be withheld at source with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, it shall withhold income tax from the payments of interest in respect of the Bonds for each non-PRC resident Bondholder.

The Bonds are redeemable in the event of certain withholding taxes or deductions being applicable.

No assurances are made by the Issuer or the Guarantor as to whether or not payments on the Bonds or under the Guarantee may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC or any subdivision or authority therein or thereof having power to tax. Although pursuant to the Terms and Conditions of the Bonds the Issuer or, as the case may be, the Guarantor is required to gross up payments in respect of the Bonds or, as the case may be, the Guarantee on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Bonds at any time in the event it (or, if the Guarantee of the Bonds was called, the Guarantor) has or will become obliged to pay additional amounts at a rate in excess of 10 per cent. of the relevant payments on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong, the PRC or any subdivision or authority therein or thereof having power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong, the PRC or any subdivision or authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date.

Proceedings instituted recently by the SEC against five PRC-based accounting firms, including an independent registered public accounting firm which has a substantial role in the audit of the Company, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

Proceedings instituted in late 2012 by the SEC against five PRC-based accounting firms, including an independent registered public accounting firm which has a substantial role in the audit of the Company, could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934 (the “Exchange Act”). The SEC alleged that these firms had violated U.S. securities laws and the SEC’s rules and regulations thereunder by failing to provide to the SEC the firms’ work papers related to their audits of certain PRC-based companies that are publicly traded in the United States and which are the subject of certain ongoing SEC investigations.

In January 2014, the administrative judge reached an Initial Decision that the “big four” accounting firms should be barred from practicing before the SEC for six months. However, it is currently impossible to determine the ultimate outcome of this matter as the accounting firms have indicated their intention to file a petition for review of the Initial Decision and the effect of the Initial Decision is suspended pending that review. It will, therefore, be for the SEC to make a legally binding order specifying the sanctions, if any, to be placed on these audit firms. Once such an order is made, the accounting firms have the right to appeal to the U.S. Federal courts, and the effect of the SEC’s order may be further suspended pending the outcome of that appeal.

The Company has not been and is not currently the subject of any SEC investigations, nor is the Company involved in the proceedings brought by the SEC against these accounting firms. However, if the SEC is successful in the proceedings against these accounting firms, the independent registered public accounting firm, which has had a substantial role in the audit of the Company, could lose temporarily or permanently the ability to practice before the SEC. Whilst the Company cannot predict the outcome of SEC proceedings, if the relevant accounting firm were denied, temporarily or permanently, the ability to practice before the SEC, and the Guarantor is unable to find timely another registered public accounting firm which can perform such substantial auditing role of the Company, the Company’s financial statements could be determined to not be in compliance with the requirements for financial statements of public companies registered under the Exchange Act. Such a determination could erode investor confidence in the Company and have a material adverse effect on the Company’s reputation.

RISKS RELATING TO THE GUARANTEE AND THE BONDS

The Bonds and the Guarantee are unsecured obligations.

As the Bonds and the Guarantee are unsecured obligations, the repayment of the Bonds and payment under the Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer’s or the Guarantor’s future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer’s or the Guarantor’s indebtedness.

If any of these events were to occur, the Issuer’s or the Guarantor’s assets may not be sufficient to pay amounts due on the Bonds.

The Issuer and the Guarantor may not be able to meet their outstanding obligations under the Bonds.

The Issuer is required under the terms and conditions of the Bonds to redeem the Bonds upon maturity or upon redemption following a Relevant Event (as defined in the Terms and Conditions of the Bonds). The source of funds for any such redemption would be the Guarantor's and the Issuer's available cash or third-party financing. However, the Guarantor or the Issuer may not have sufficient available funds to redeem the Bonds upon maturity or upon redemption following a Relevant Event. A failure to redeem the outstanding Bonds when due would constitute an Event of Default (as defined therein) under the Bonds. The Event of Default may in turn constitute an event of default under other indebtedness, any of which could cause related debt to be accelerated after any applicable notice or grace periods. If other debt of the Issuer or the Guarantor were to be accelerated, the Issuer or the Guarantor may not have sufficient funds or assets to redeem the Bonds and repay the debt.

The liquidity and price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Company's revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in the prices of securities of companies comparable to the Guarantor could cause the price of the Bonds to change. Any such development may result in large and sudden changes in the volume and price at which the Bonds will trade. There is no assurance that these developments will not occur in the future.

The Guarantee is not enforceable before registration with SAFE and there may be uncertainty relating to the coverage and enforceability of the Guarantee.

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds. The Guarantor, as a PRC-incorporated entity, is required to obtain SAFE approval in order to guarantee any indebtedness incurred by a foreign entity under any bond issuance, including its foreign incorporated subsidiary. On 29 June 2011, the Guarantor obtained approval from the Shanghai Bureau of SAFE to guarantee bond indebtedness of the Issuer incurred outside the PRC for a principal amount of up to CNY8 billion or its equivalent and all interest and relevant expenses incurred in relation to the Bonds. The approval was granted by the Shanghai Bureau of SAFE pursuant to the Foreign Security Measures and the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions (《國家外匯管理局關於境內機構對外擔保管理問題的通知》) promulgated by SAFE on 30 July 2010 (the "SAFE Notice").

The Guarantor understands from the approval and its discussion with SAFE that:

- (i) the Guarantee will only be valid, binding and enforceable against the Guarantor under the PRC law upon execution and completion of the approval and registration procedures with the Shanghai Bureau of SAFE; and
- (ii) the Guarantee will cover all sums due under the Bonds (including any Renminbi principal, interest and relevant expenses) so long as the principal amount of the Bonds together with any offshore bond indebtedness of the Issuer do not exceed CNY8 billion on the Issue Date.

The Guarantor is required by the Foreign Security Measures and the SAFE Notice to further register the Guarantee with the Shanghai Bureau of SAFE within 15 calendar days of the date of execution of the Guarantee. The Guarantee may not be enforceable until the registration of the Guarantee is completed in accordance with the provisions of the Foreign Security Measures and the SAFE Notice. The Guarantor intends to register the Guarantee as soon as practicable and in any event before the Registration Deadline (being 30 Business Days after the Issue Date) and in the opinion of

the Company's PRC legal advisers, there is no legal impediment to complete such registration. If the Guarantor fails to fulfil the Registration Conditions on or before the Registration Deadline, each of the holders will have the right to request the Issuer to redeem all but not some of such holder's Bonds and will need to rely on the Issuer to source sufficient Renminbi from other sources to fully discharge its obligations under the Bonds. Prior to the performance or discharge of its obligations under the Guarantee, the Guarantor is also required to complete a verification process with the Shanghai Bureau of SAFE for each remittance under the Guarantee.

The administration of the Foreign Security Measures and the SAFE Notice may be subject to a certain degree of executive and policy discretion by SAFE. There is no assurance that the registration of the Guarantee with SAFE can be completed or that the approval of, or registration with, SAFE obtained by the Guarantor will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the validity and enforceability of the Guarantee in the PRC.

The Renminbi is not freely convertible; there are significant restrictions on the remittance of Renminbi into and outside the PRC, and the availability of Renminbi funds for servicing the Bonds may be subject to future limitations imposed by the PRC government.

The Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between the Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of Renminbi trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover provinces and cities in China and to make Renminbi trade and other current account item settlement available worldwide.

On 25 February 2011, the MOFCOM promulgated the Circular on Issues concerning Foreign Investment Management (《商務部關於外商投資管理工作有關問題的通知》) (the "MOFCOM Circular"). The MOFCOM Circular states that if a foreign investor intends to make investments in the PRC (whether by way of establishing a new enterprise, increasing the registered capital of an existing enterprise, acquiring an onshore enterprise or providing loan facilities) with Renminbi that it has generated from cross-border trade settlement or that is lawfully obtained by it outside the PRC, MOFCOM's prior written consent is required. On 3 December 2013, the MOFCOM promulgated the Announcement on Issues Concerning Cross-border RMB Direct Investment (《商務部關於跨境人民幣直接投資有關問題的公告》) (the "New MOFCOM Announcement"). The New MOFCOM Announcement eased rules on cross-border RMB direct investments. Pursuant to the New MOFCOM Announcement, a direct investment using offshore RMB will be approved by MOFCOM and its local counterparts in accordance with the existing PRC laws and regulations regarding foreign investment, and MOFCOM and its local counterparts will specify in its approvals that the direct investment is in RMB. Moreover, if a foreign investor intends to change the investment currency from a certain foreign currency to RMB, no additional approval for the revision to its joint venture contract or articles of association is required (although it is still subject to the applicable registration, account opening and currency conversion procedures required by the competent authorities). In any event, a cross-border RMB direct investment is subject to the relevant laws, regulations and requirements on foreign investment and shall comply with the national industry policies in terms of foreign investment and the relevant rules on security review of merger and acquisitions and anti-monopoly review. In addition, the proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrusted loans except for strategic investments in listed companies. Whilst the MOFCOM Circular and the new MOFCOM Announcement expressly sets out the requirement of obtaining MOFCOM's prior written consent for remittance of Renminbi back into the PRC by a foreign investor, the foreign investor may also be required to obtain approvals from other PRC regulatory authorities, such as the PBOC and SAFE, for transactions under capital account items. On 7 April 2011, SAFE promulgated the Notice of the General Affairs Department of the State Administration of Foreign Exchange on

Relevant Issues regarding Streamlining the Business Operations of Cross-border Renminbi Capital Account Items (《國家外匯管理局綜合司關於規範跨境人民幣資本項目業務操作有關問題的通知》). On 13 October 2011, PBOC promulgated the Measures for Administration of RMB Settlement Business in Relation to Foreign Direct Investment (《外商直接投資人民幣結算業務管理辦法》). On 24 June 2012, PBOC promulgated the Notice of the People's Bank of China on Clarifying the Detailed Operating Rules for RMB Settlement of Foreign Direct Investment (《人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知》). Under these regulations and rules, foreign investors may settle RMB with banks directly, including opening RMB accounts and settling initial investment expenses and paying acquisition consideration in RMB.

However, the size of Renminbi-denominated financial assets outside the PRC is currently limited. By the end of December 2013, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately CNY860 billion according to the Hong Kong Monetary Authority. In addition, participating authorised institutions are also required by the Hong Kong Monetary Authority to maintain a total amount of Renminbi (in the form of cash and its settlement account balance with the Renminbi Clearing Bank) of no less than 25 per cent. of their Renminbi deposits, which further limits the availability of Renminbi that participating authorised institutions can utilise for conversion services for their customers. Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC. The Renminbi Clearing Bank only has access to onshore liquidity support from PBOC (subject to annual and quarterly quotas imposed by PBOC) to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers of up to CNY20,000 per person per day. The Renminbi Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the pilot scheme will not be terminated or amended in the future, which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of the Bonds. To the extent the Issuer and/or the Guarantor are required to source Renminbi in the offshore market to service the Bonds and the Guarantee, there is no assurance that it will be able to source such Renminbi on satisfactory terms, if at all. If the Renminbi is not available for delivery outside the PRC, the Issuer can make payments under the Bonds in U.S. dollars.

The Company intends to use the net proceeds from this offering of the Bonds to fund its working capital and for other general corporate purposes. Subject to obtaining all necessary approvals from and registration with the relevant PRC government authorities, the Issuer may decide to remit the proceeds into China in Renminbi. However, because the current SAFE rules prohibit the funds raised by the Issuer in the offshore market under the Guarantee to be injected into the PRC, the Issuer will need to obtain a special approval from SAFE (the "Special Approval") before it actually remits the proceeds into China. There is no assurance that the Special Approval and the other necessary approvals from and registration with the relevant PRC government authorities will be obtained at all or, if obtained, that they will not be revoked or amended in the future. See also "Remittance of Renminbi into and outside the PRC".

There is no assurance that the PRC government will continue to gradually liberalise its control over cross-border Renminbi remittances in the future or that new PRC regulations will not be promulgated in the future which have the effect of restricting the remittance of Renminbi into or

outside China. In the event that the Company is not able to repatriate funds outside China in Renminbi, it will need to source Renminbi offshore to finance its obligations under the Bonds (and the Guarantee, as the case may be) and its ability to do so will be subject to the overall availability of Renminbi outside China.

Investment in the Bonds may subject investors to foreign exchange rate risks.

The value of the Renminbi against the Hong Kong dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. The Bonds are denominated and payable in Renminbi. If an investor measures its investment returns by reference to a currency other than Renminbi, an investment in the Bonds entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to the currency by reference to which an investor measures its investment returns. Depreciation of the Renminbi against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

Payments in respect of the Bonds will only be made to investors in the manner specified in the Bonds.

All payments to investors in respect of the Bonds will be made solely by (i) when the Bonds are represented by a global certificate, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, or (ii) when the Bonds are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in bank notes, by cheque or draft, or by transfer to a bank account in the PRC).

The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including the giving of notice to the Issuer and the Guarantor pursuant to Condition 9 of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee will not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed or in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the Trust Deed, the Terms and Conditions of the Bonds and the applicable law, it will be for the Bondholders to take such actions directly.

An active trading market for the Bonds may not develop.

There can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market was to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price, depending on many factors, including prevailing interest rates, the Company's operations and the market for similar securities. The Joint Lead Managers are not obligated to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, investors will only be able to resell their Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

Developments in the international financial markets may adversely affect the market price of the Bonds.

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for securities of entities with PRC operations is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC. Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets or in any country in the future, the market price of the Bonds could be adversely affected.

The insolvency laws of the PRC and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Bonds are familiar.

As the Guarantor and its significant subsidiaries are incorporated under the laws of the PRC, any insolvency proceeding relating to them is likely to involve PRC insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

TERMS AND CONDITIONS OF THE BONDS

The following other than the words in italics is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of CNY-denominated Guaranteed Bonds was authorised by a shareholders' resolution and a resolution of the Board of Directors of Eastern Air Overseas (Hong Kong) Corporation Limited (the "Issuer") passed on 20 February 2014 and 20 February 2014, respectively, and the guarantee of the Bonds was authorised by a resolution of the general meeting of the shareholders and a resolution of the Board of Directors of China Eastern Airlines Corporation Limited (the "Guarantor") on 29 June 2011 and 30 May 2011, respectively. The Bonds are constituted by a Trust Deed (the "Trust Deed") dated on or about 21 February 2014 between the Issuer, the Guarantor and DB Trustees (Hong Kong) Limited (the "Trustee" which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds, and are issued on a date set forth in the Confirmation Letter (as defined in the Trust Deed) executed in accordance with the Trust Deed (the "Issue Date"). These terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Bonds have the benefit of a deed of guarantee (the "Deed of Guarantee") dated on or about 21 February 2014 executed by the Guarantor relating to the Bonds. Copies of the Trust Deed, the Deed of Guarantee and an agency agreement (the "Agency Agreement") dated on or about 21 February 2014 relating to the Bonds between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, Hong Kong Branch as CMU Lodging Agent (the "CMU Lodging Agent"), the registrar (the "Registrar"), any transfer agents (each a "Transfer Agent"), the initial principal paying agent and any other agents named in it, are available for inspection during normal business hours at the principal office of the Trustee (presently at 52nd Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified offices of the principal paying agent for the time being (the "Principal Paying Agent"), the Registrar and any Transfer Agents. "Agents" means the Principal Paying Agent, the CMU Lodging Agent, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1. Form, Denomination and Title

- (a) **Form and denomination:** The Bonds are issued in the specified denomination of CNY1,000,000 and higher integral multiples of CNY10,000. A certificate (each, a "Definitive Certificate") will be issued to each holder of Bonds in respect of its registered holding of Bonds. Each Definitive Certificate shall be numbered serially and shall have an identifying number which shall be recorded on the relevant Definitive Certificate and in the register of holders of the Bonds (the "Register"), which the Issuer shall procure to be kept by the Registrar.

Upon issue, the Bonds will be represented by a global certificate (the "Global Certificate") registered in the name of the Hong Kong Monetary Authority ("HKMA"), and lodged with a sub-custodian of the HKMA as operator (the "CMU Operator") of the Central Moneymarkets Unit Service ("CMU"). The Conditions are modified by certain provisions contained in the Global Certificate. See "Summary of Provisions Relating to the Bonds in Global Form".

Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

- (b) **Title:** Title to the Bonds shall pass only by transfer and registration of title in the Register. The holder of any Bond shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on (other than the endorsed form of transfer), or the theft or loss of, the Definitive Certificate issued in respect of it), and no person shall be liable for so treating the holder. In these Conditions, “holder of the Bonds”, “holder” and “Bondholder” in relation to a Bond shall mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

2 Status and Guarantee

- (a) **Status:** The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
- (b) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. Its obligations in that respect (the “Guarantee”) are contained in the Deed of Guarantee. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Transfers of Bonds and Issue of Definitive Certificates

- (a) **Register:** The Issuer will cause the Register to be kept at the specified office of the Registrar (which shall be outside the United Kingdom in all circumstances) and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds. Each Bondholder shall be entitled to receive only one Definitive Certificate in respect of its entire holding of Bonds.
- (b) **Transfers:** Subject to the Agency Agreement and Conditions 3(e) and 3(f), a Bond may be transferred by delivery of the Definitive Certificate issued in respect of that Bond, with the form of transfer endorsed on such Definitive Certificate duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or the Transfer Agent. No transfer of title to a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

- (c) **Delivery of new Definitive Certificates:** Each new Definitive Certificate to be issued upon a transfer of Bonds will, within seven business days (as defined below) of receipt by the Registrar or, as the case may be, any Transfer Agent of the Definitive Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds but free

of charge to the holder and at the Issuer's expense to the address specified in the form of transfer. The form of transfer is available at the specified offices of the Transfer Agents. Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Definitive Certificate is issued is to be transferred or exchanged, a new Definitive Certificate in respect of the Bonds not so transferred or exchanged will, within seven business days (as defined below) of delivery of the original Definitive Certificate to the Registrar or Transfer Agent, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred or exchanged (but free of charge to the holder and at the Issuer's expense) to the address of such holder appearing on the Register.

In this Condition 3, "business day" shall mean a day (other than a Saturday, Sunday or public holiday) on which commercial banks are generally open for business in the city in which the specified office of the Registrar or (as the case may be) such Transfer Agent with whom a Definitive Certificate is deposited in connection with a transfer or exchange, is located.

- (d) **Formalities free of charge:** Registration of a transfer of Bonds and issuance of new Definitive Certificates will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon (i) payment (or the giving of such indemnity or security as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and (iii) the relevant Agent (after consultation with the Issuer if so required) being satisfied that the regulations concerning transfer of Bonds have been complied with.
- (e) **Closed periods:** No Bondholder may require the transfer of a Bond to be registered during the period of (i) seven Payment Business Days (as defined in Condition 7(f)) ending on (but excluding) the due date for any payment of principal in respect of that Bond; and (ii) during the period of ten days ending on (and including) any Interest Record Date (as defined in Condition 7(a)).
- (f) **Regulations:** All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge to the Bondholder and at the Issuer's expense) by the Registrar to any Bondholder upon request and is available at the specified offices of the Transfer Agent.

4 Negative Pledge; Undertaking relating to the Guarantee

- (a) **Negative pledge:** So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will ensure that none of their respective Subsidiaries will, create, or have outstanding, any mortgage, charge, lien, pledge, other security interest or form of encumbrance having a similar effect upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as the Trustee may in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

- (b) **Undertakings relating to the Guarantee:** The Guarantor undertakes that:
- (i) the Guarantor shall not guarantee any further indebtedness of the Issuer (including, without limitation, any further Bonds issued pursuant to Condition 15 by the Issuer) pursuant to or in connection with the approval from SAFE dated 29 June 2011 (*Hudanbao 11003*) which together with the Bonds and any bond indebtedness of the Issuer exceed an aggregate principal amount of CNY8,000,000,000; and
 - (ii) the Guarantor will register or cause to be registered with SAFE the Guarantee within 15 days after the date of execution of the Guarantee in accordance with the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions (國家外匯管理局關於境內機構對外擔保管理問題的通知(匯發(2010)39號)) and will use its best endeavours to complete the registration on or before the Registration Deadline, and to comply with all applicable PRC laws and regulations in relation to the Guarantee.

In these Conditions:

“Registration Deadline” means the day falling 30 Business Days after the Issue Date;

“Relevant Indebtedness” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

a “Subsidiary” of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person; and

“SAFE” means the Shanghai Bureau of the State Administration of Foreign Exchange or its local branch.

5 Interest

- (a) **Interest rate and Interest Payment Dates:** The Bonds bear interest from and including the Issue Date at the Coupon Rate of (as defined in the Trust Deed and to be set forth in the Confirmation Letter executed in accordance with the Trust Deed), payable semi-annually in arrear on such dates set forth in the Confirmation Letter executed in accordance with the Trust Deed (each an “Interest Payment Date”), commencing the first Interest Payment Date after the Issue Date. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “Interest Period”.
- (b) **Interest Payments:** Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Definitive Certificate representing such Bond, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest

in accordance with this Condition (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

- (c) **Calculation of interest:** Interest in respect of any Bond shall be calculated per CNY10,000 in principal amount of the Bonds (the “Calculation Amount”). The amount of interest payable per Calculation Amount for any period shall be calculated by applying the rate of interest specified in Condition 5(a) to the Calculation Amount and multiplying such product by the actual number of days in the Interest Period concerned divided by 365 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (d) In this Condition 5, the expression “business day” means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are generally open for business and settlement of Renminbi payments in Hong Kong.

6 Redemption and Purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, the date as set forth in the Confirmation Letter executed in accordance with the Trust Deed (the “Maturity Date”). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.
- (b) **Redemption for taxation reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders (which notice shall be irrevocable), at their principal amount together with accrued but unpaid interest, if:
 - (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8(c) as a result of any change in, or amendment to, the laws or regulations of Hong Kong, in the case of the Issuer, or the PRC, in the case of the Issuer or the Guarantor, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a decision by a court of competent jurisdiction), which change or amendment becomes effective on or after the Pricing Date (as defined in the Trust Deed and to be set forth in the Confirmation Letter executed in accordance with the Trust Deed), and
 - (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Bonds (or the Guarantee, as the case may be) were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be

avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders.

- (c) **Redemption for Relevant Events:** At any time following a Relevant Event, a Bondholder will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds on the Put Date at 102 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with accrued interest up to, but excluding the Put Date. To exercise such right, the relevant Bondholder must deposit at the specified office of the Principal Paying Agent or any Transfer Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent or any Transfer Agent (a "Put Exercise Notice"), together with the Definitive Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16. The "Put Date" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of Put Exercise Notices delivered as aforesaid on the Put Date.

The Issuer shall give notice to Bondholders and the Trustee in accordance with Condition 16 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event has occurred and shall not be responsible or liable to Bondholders for any loss arising from any failure to do so.

For the purposes of this Condition 6(c):

a "Change of Control" occurs when the SASAC ceases to directly or indirectly Control the Guarantor or the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor's assets to any other person or persons, acting together, except where such person(s) is/are Controlled by the SASAC;

"Control" means (where applicable): (i) the ownership or control of more than 50 per cent. of the Voting Rights of the issued share capital of a person or (ii) the nomination or designation of no less than 50 per cent. of the members then in office of a person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person. For the avoidance of doubt, a person is deemed to Control another person so long as it fulfils one of the three foregoing requirements;

a "No Registration Event" occurs when the Registration Conditions are not satisfied on or before the Registration Deadline;

a “person” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state, agency of a state (in each case whether or not being a separate legal entity) but does not include:

- (a) the Guarantor’s board of directors or any other governing board; and
- (b) the Guarantor’s wholly-owned direct or indirect subsidiaries;

a “Relevant Event” means a Change of Control or a No Registration Event;

“Registration Conditions” means the receipt by the Trustee of:

- (i) a certificate in substantially the form set forth in the Trust Deed signed by a director or a duly authorised officer of the Guarantor confirming (i) the completion of the registration of the Guarantee with SAFE in accordance with the Interim Provisions on the Management of Foreign Debts (外債管理暫行辦法) effective on 1 March 2003;
- (ii) a certified true copy of the relevant SAFE registration certificate and the particulars of registration; and
- (iii) a legal opinion as to PRC law issued by a PRC law firm of international repute, addressed to and in form and substance satisfactory to the Trustee that the Guarantee (i) constitutes legal, valid and binding obligations of the Guarantor and (ii) is enforceable against the Guarantor;

“SASAC” means the State-owned Assets Supervision and Administration Commission of the State Council of the PRC or its successor; and

“Voting Rights” means the right generally to vote at a general meeting of shareholders of the Issuer (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency, and any such voting power shall therefore be excluded for the purpose of this definition).

- (d) **Notices of redemption:** If in respect of any Bond, a redemption notice pursuant to Condition 6(b) and a Put Exercise Notice are given, the Put Exercise Notice shall prevail.
- (e) **Notice of redemption:** All Bonds in respect of which any notice of redemption is given under Condition 6(b) shall be redeemed on the date specified in such notice in accordance with this Condition 6.
- (f) **Purchase:** The Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds purchased pursuant to this Condition 6(f) may be held, reissued, resold or surrendered to the Registrar for cancellation at the option of the Issuer, the Guarantor or their respective Subsidiaries (as the case may be). The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 12(a).

7 Payments

(a) Method of Payment:

- (i) Payments of principal shall be made (subject to surrender of the relevant Definitive Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) by transfer in Renminbi to the registered account of the Bondholder.

Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the “Interest Record Date”). Payments of interest on each Bond shall be made in Renminbi by transfer to the registered account of the Bondholder.

- (ii) For the purposes of this Condition 7, a Bondholder’s “registered account” means the Renminbi account maintained by or on behalf of it with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth Payment Business Day before the due date for payment.
- (iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate at the Issuer’s expense with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

For so long as any of the Bonds are represented by the Global Certificate, payments of interest, premium (if any) or principal will be made to the persons for whose account a relevant interest in the Global Certificate is credited as being held by the CMU Operator at the relevant time, as notified to the Principal Paying Agent or the CMU Lodging Agent by the CMU Operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the CMU Operator. Such payment will discharge the Issuer’s obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

- (b) **Payments subject to Fiscal Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Bondholders in respect of such payments.
- (c) **Payment Initiation:** Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date, or if that is not a Payment Business Day, for value on the first following day which is a Payment Business Day) will be initiated on the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a Payment Business Day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.
- (d) **Appointment of Agents:** The Principal Paying Agent, the Registrar, the CMU Lodging Agent and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, the CMU Lodging Agent and the Transfer Agents act, save as specifically provided in these Conditions, solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, the CMU Lodging Agent or any Transfer Agents and to appoint additional or other Transfer Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar with a specified office outside the United Kingdom, (iii) a Transfer Agent, and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed, in each case, as approved by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Bondholders.

- (e) **Delay in Payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).
- (f) **Payment Business Days:** In this Condition 7, “Payment Business Day” means a day (other than a Saturday or Sunday or public holiday) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong and the city in which the specified office of the relevant Paying Agent is located and, in the case of surrender of a Certificate (if surrender of the relevant Certificate is required) the relevant place of presentation.

8 Taxation

- (a) All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or the PRC or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.
- (b) Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC at the rate of up to and including 10 per cent. the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.
- (c) If the Issuer or, as the case may be, the Guarantor is required to make a deduction or withholding by or within the PRC in excess of 10 per cent. or if the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (“Additional Tax Amounts”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:
 - (x) Other connection: to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Hong Kong or the PRC in the case of payments by the Issuer, or the PRC in the case of payments made by the Guarantor, other than the mere holding of the Bond; or
 - (y) Surrender more than 30 days after the Relevant Date: in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

“**Relevant Date**” in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9 Events of Default

If any of the following events (“Events of Default”) occurs and is continuing the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided that the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at 100 per cent. of their principal amount together (if applicable) with accrued interest:

- (a) **Non-Payment:** the Issuer and the Guarantor each fails to pay the principal of or any interest on any of the Bonds when due and in the case of interest such failure continues for a period of 14 days; or
- (b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Bonds or under the Deed of Guarantee and/or the Trust Deed (where applicable) which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor by the Trustee; or
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) has occurred equals or exceeds CNY150 million or its equivalent in any other currency (as determined on the basis of the middle spot rate for the relevant currency against the Renminbi as quoted by any leading bank selected by the Trustee (at the expense of the Issuer) on the day on which such amount becomes due and payable or is not paid); or
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or, a material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Principal Subsidiaries and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Principal Subsidiaries over the whole or, a material part of the assets of the Issuer, the Guarantor or any of the Principal Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver manager or other similar person) and is not discharged within 30 days; or

- (f) **Insolvency:** the Issuer, the Guarantor or any of the Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any material part of the debts of the Issuer, the Guarantor or any of the Principal Subsidiaries; or
- (g) **Winding-up:** an administrator is appointed, an order of any court of competent jurisdiction is made or an effective resolution is passed for the winding-up or dissolution of the Issuer or the Guarantor or any of the Principal Subsidiaries, or the Issuer or the Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or, substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor (as the case may be) or another of the Principal Subsidiaries; or
- (h) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds, the Deed of Guarantee, the Trust Deed and the Agency Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds, the Deed of Guarantee, the Trust Deed and the Agency Agreement admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or
- (i) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds, the Deed of Guarantee or the Trust Deed; or
- (j) **Unenforceability of Guarantee:** the Guarantee becomes unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Guarantor; or
- (k) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the Condition 9(a) to 9(j) (both inclusive).

Each of the Issuer and the Guarantor has undertaken in the Trust Deed that, within 14 days of its annual audited financial statements being made available to its members, and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by two of its respective directors to the effect that as at a date not more than five days prior to the date of the certificate no Event of Default or event or circumstance that could with the giving of notice, lapse of time and/or issue of a certificate become an Event of Default has occurred.

In this Condition 9, “Principal Subsidiary” means any Subsidiary of the Guarantor:

- (a) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue, as shown by its latest audited income statement is at least 5 per cent. of the consolidated revenue as shown by the latest published audited consolidated income

statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

- (b) whose gross profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated gross profit, as shown by its latest audited income statement are at least 5 per cent. of the consolidated gross profit as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (c) whose gross assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated gross assets, as shown by its latest audited balance sheet are at least 5 per cent. of the amount which equals the amount included in the consolidated gross assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the investment of the Guarantor in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Guarantor and after adjustment for minority interests; or
- (d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to become a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition,

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;
- (ii) if at any relevant time in relation to the Guarantor or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, gross profit or gross assets of the Guarantor and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Guarantor;
- (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, gross profit or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Guarantor; and

- (iv) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor.

In addition, any Subsidiary which is not itself a Principal Subsidiary shall nevertheless be treated as a Principal Subsidiary if the revenue (or consolidated revenue if the Subsidiary itself has Subsidiaries), gross profit (or consolidated gross profit if the Subsidiary itself has Subsidiaries) or gross assets (or consolidated gross assets if the Subsidiary itself has Subsidiaries) attributable to such Subsidiary when aggregated with the revenue (or consolidated revenue if appropriate), gross profit (or consolidated gross profit if appropriate) or gross assets (or consolidated gross assets if appropriate) attributable to any other Subsidiary which is not itself a Principal Subsidiary and with respect to which any of the events referred to in this Condition 9 has occurred since the issue date of the Bonds and is continuing, exceeds 5 per cent. of the consolidated revenue, consolidated gross profit or consolidated gross assets of the Guarantor and its Subsidiaries.

Subject to compliance with the requirement set forth below, a certificate prepared by the directors of the Guarantor that in their opinion, a Subsidiary is or is not, or was or was not, a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Bondholders and all parties. The certificate must be accompanied by a report by an internationally recognised firm of accountants addressed to the directors of the Guarantor as to proper extraction and basis of the figures used by the Guarantor in determining the Principal Subsidiaries of the Guarantor and mathematical accuracy of the calculation.

10 Prescription

Claims in respect of principal and interest will become void unless made as required by Condition 7 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

11 Replacement of Definitive Certificates

If any Definitive Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any other Agent subject to all applicable laws or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and such Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders and Modification

- (i) **Meetings of Bondholders:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Deed of Guarantee or the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in the aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Bonds or

the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee (subject to Condition 12(b)), in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent. or at any adjourned meeting not less than 33 per cent. in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

- (b) **Modification:** The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified by the Issuer to the Bondholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Under the Trust Deed, the Trustee may agree or require the Issuer to use all reasonable endeavours to procure the substitution as principal debtor under the Trust Deed and the Bonds of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Bonds, and provided that if the Bonds are rated at the time of substitution, such substitution shall not at the time of substitution result in a downgrading of any rating assigned to the Bonds.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Bonds and/or the Guarantee, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of and/or provision of security and/or prefunding for and to the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely without liability to Bondholders on any report, confirmation, certificate or opinion or any advice of any accountants, lawyers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.

15 Further Issues

Subject to compliance with the undertaking in Condition 4(b)(i), the Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

16 Notices

Notices to Bondholders will be valid if (a) made in writing in English and mailed to them by uninsured mail at the Issuer's expense at their addresses which appear in the Register maintained by the Registrar; or (b) published at the Issuer's expense in a leading English language daily newspaper having general circulation in Asia (which is expected to be The Wall Street Journal Asia). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Global Certificate is held on behalf of the CMU Operator, any notice to the holders of the Bonds shall be validly given by the delivery of the relevant notice to the account holder shown in a CMU instrument position report issued by the CMU Operator on the business day preceding the date of despatch of such notice as holding interests in the Global Certificate. Any such notice shall be deemed to have been given to the Bondholders on the second business day on which such notice is delivered to the persons shown in the CMU instrument position report.

17 Currency Indemnity

The Renminbi is the sole currency of account and payment for all sums payable by the Issuer or the Guarantor under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than Renminbi (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor (as the case may be) shall only constitute a discharge to the Issuer and the Guarantor to the extent of the Renminbi amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Renminbi amount is less than the Renminbi amount expressed to be due to the recipient under any Bond, the Issuer or the Guarantor (as the case may be) shall indemnify it against any loss sustained by it as a result. In any event, the Issuer or the Guarantor (as the case may be) shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition 17, it will be sufficient for the Bondholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgment or order.

18 Governing Law

- (a) **Governing Law:** The Bonds, the Deed of Guarantee and the Trust Deed are all governed by and shall be construed in accordance with Hong Kong law.
- (b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with the Bonds or the Deed of Guarantee ("Proceedings") may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.
- (c) **Service of Process:** Each of the Issuer and the Guarantor has agreed to receive service of process at the Issuer's principal place of business at 22/F, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong based on any of the Bonds or the Deed of Guarantee. If the Issuer ceases to have a place of business in Hong Kong, each of the Issuer and the Guarantor shall promptly appoint a person in Hong Kong to accept service of process on its behalf and deliver to the Trustee a copy of such person's acceptance of that appointment within 30 days. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- (d) **Waiver of Immunity:** Each of the Issuer and the Guarantor hereby waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds will be issued in registered form and represented by the Global Certificate registered in the name of the HKMA, in its capacity as operator of the CMU, and shall be delivered to and held by a sub-custodian nominated by the HKMA as operator of the CMU. The Global Certificate will be held for the account of CMU members who have accounts with the CMU operator, or the CMU participants. For persons seeking to hold a beneficial interest in the Bonds through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with the CMU operator. Interests in the Global Certificate will only be shown on, and transfers of interests will be effected through, records maintained by the CMU operator.

The Global Certificate will become exchangeable in whole, but not in part (save as otherwise provided), for definitive certificates in the denomination of CNY1,000,000 each and integral multiples of CNY10,000 in excess thereof if any of the following events occurs:

- if the Global Certificate is held on behalf of the CMU or any other clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to cease business permanently or does in fact do so; or
- upon or following any failure to pay principal in respect of any Bonds when it is due and payable; or
- with the consent of the Issuer.

Since the CMU operator can act only on behalf of the CMU participants, who in turn may act only on behalf of persons who hold interests through them or indirect participants, the ability of persons having interests in the Global Certificate to pledge such interests to persons or entities that are not CMU participants, or otherwise take action in respect of such interests, may be affected by the lack of definitive bonds.

While the Global Certificate representing the Bonds is held by or on behalf of the CMU operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the Global Certificate is credited as being held by the CMU operator at the relevant time, as notified to the Principal Paying Agent by the CMU operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the CMU operator. So long as the Bonds are represented by the Global Certificate and are held by or on behalf of the CMU operator, such payment by the Issuer will discharge the Issuer's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

Payments, transfers, exchanges and other matters relating to interests in the Global Certificate may be subject to various policies and procedures adopted by the CMU operator from time to time. None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents or any of their agents will have any responsibility or liability for any aspect of the CMU operator's records relating to, or for payments made on account of, interests in the Global Certificate, or for maintaining, supervising or reviewing any records relating to such interests.

For so long as all of the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of the CMU operator, notices to holders of the Bonds may be given by delivery of the relevant notice to the persons shown in a CMU instrument position report issued by the CMU operator on the business day preceding the date of despatch of such notice as holding interests in the Global Certificate for communication to the CMU participants. Any such notice shall

be deemed to have been given to the holders of the Bonds on the second business day on which such notice is delivered to the persons shown in the relevant CMU instrument position report as aforesaid. Indirect participants will have to rely on the CMU participants (through whom they hold the Bonds, in the form of interests in the global certificate) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU participants.

The CMU operator is under no obligation to maintain or continue to operate the CMU and the CMU operator is under no obligation to perform or continue to perform the procedures described above. Accordingly, the CMU and such procedures may be discontinued or modified at any time. None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee and the Agents or any of their agents will have any responsibility for the performance by the CMU operator or the CMU participants of their respective obligations under the rules and procedures governing their operations.

USE OF PROCEEDS

The Issuer estimates the net proceeds to it from its sale of the Bonds to be approximately RMB2,496.0 million after deducting underwriting commissions and expenses.

The Company intends to use the net proceeds from the sale of the Bonds for working capital and other general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Guarantor

The following table sets forth the total capitalisation of the Guarantor as at 30 June 2013 and adjusted to give effect to the issue of the Bonds:

	Actual	As adjusted
	(RMB'000)	
Current borrowings		
Current portion of long-term bank borrowings		
Secured	2,154,962	2,154,692
Unsecured.	6,179,190	6,179,190
Short-term bank borrowings		
Secured	—	—
Unsecured.	10,350,159	10,350,159
Short-term debentures	4,000,000	4,000,000
Total current borrowings	22,684,311	22,684,311
Non-current borrowings		
Long-term bank borrowings		
Secured	14,647,318	14,647,318
Unsecured.	5,469,471	5,469,471
Bonds issued in 2011.	2,500,000	2,500,000
Bonds issued in 2013.	6,980,239	6,980,239
Bonds to be issued ⁽¹⁾	—	2,500,000
Total non-current borrowings	29,597,028	32,097,028
Total borrowings	52,281,339	54,781,339
Equity		
Share capital.	12,674,269	12,674,269
Reserves.	11,919,192	11,919,192
Non-controlling interests	1,421,512	1,421,512
Total equity	26,014,973	26,014,973
Total capitalisation ⁽²⁾	78,296,312	80,796,312

Notes:

⁽¹⁾ The aggregate principal amount of the Bonds to be issued has not taken into account the effect of transaction costs and expenses.

⁽²⁾ Total capitalisation equals the sum of total borrowings and total equity.

Capitalisation and Indebtedness of the Issuer

As at the date of this Offering Circular, the authorised share capital of the Issuer was HK\$30,000,000, divided into 30,000,000 ordinary shares of HK\$1.0 each, all of which are held by the Guarantor and are fully paid, representing the entire issued share capital of the Issuer.

The following table sets forth the capitalisation of the Issuer as at 30 June 2013, as adjusted to give effect to the issue of the Bonds:

	<u>Actual</u>	<u>As adjusted</u>
	(RMB'000)	
Borrowings — non-current		
Bonds issued in 2011	2,496,348	2,496,348
Bonds issued in 2013	2,195,646	2,195,646
Bonds to be issued ⁽¹⁾	<u>—</u>	<u>2,500,000</u>
Total borrowing	<u>4,691,994</u>	<u>7,191,994</u>
Equity		
Share capital	<u>24,935</u>	<u>24,935</u>
Total equity	<u>24,935</u>	<u>24,935</u>
Total capitalisation ⁽²⁾	<u><u>4,716,929</u></u>	<u><u>7,216,929</u></u>

Notes:

- ⁽¹⁾ The principal amount of the Bonds to be issued has not taken into account the effect of transaction costs and expenses.
- ⁽²⁾ Total capitalisation equals the sum of total borrowings and total equity.

DESCRIPTION OF THE ISSUER

Formation

The Issuer is a limited liability company incorporated under the Companies Ordinance (Cap. 622) of Hong Kong (CR No. 1614655). It was incorporated in Hong Kong on 10 June 2011. Its registered office is 22/F., Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong. The Issuer is a wholly owned subsidiary of the Guarantor.

Business Activity

The Issuer is principally engaged in investment holding and serves as a vehicle to procure financing outside the PRC for the Company. The Issuer, as a joint venture partner with Jetstar International Group Holdings Co., Limited, a wholly owned Hong Kong-based subsidiary of Qantas Airlines, invested in Jetstar Hong Kong Airways. Please see “History and Development of the Company” for more details. In addition, the Issuer engages in the purchase of aircraft and the procurement of aircraft fuel for the Company. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue additional bonds, acquire additional aircraft and enter into leases of such aircraft, enter into fuel hedging and other related derivative transactions (and engage in other activities related to the aforementioned) and other businesses related to those of the Company and may incur additional liabilities and indebtedness.

Directors and Officers

The directors of the Issuer are Mr. Wu Yongliang, Mr. Wu Zhiwei, Mr. Zhang Houxin, Mr. Yuan Jun and Mr. Guo Lijun. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer.

Share Capital

The authorised share capital of the Issuer is HK\$30,000,000, divided into 30,000,000 ordinary shares of HK\$1.0 each, all of which have been issued and are fully paid. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

Summary Financial Information of the Issuer

Comprehensive Income Statement Data (prepared and presented in accordance with Hong Kong Financial Reporting Standards)

	For the period from 10 June 2011 (date of incorporation) to 31 December 2011 (audited)	Year ended 31 December 2012 (audited)	Six months ended 30 June 2013 (unaudited)
	(RMB'000)		
Revenue	—	1,764,648	1,957,468
Cost of sales	—	(1,754,082)	(1,845,267)
Gross profit	—	10,566	112,201
General and administration cost	—	(1,095)	(184)
Operating profit	—	9,471	112,017
Share of results of associates	—	—	(55,059)
Finance income	34,014	111,268	14,005
Finance cost	(42,051)	(103,180)	(60,165)
Profit/(loss) before income tax	(8,037)	17,559	10,798
Income tax expense	—	(2,897)	(1,782)
Profit/(loss) for the year/period	(8,037)	14,662	9,016
Total comprehensive income/(loss) for the year/period	(8,037)	14,662	9,016

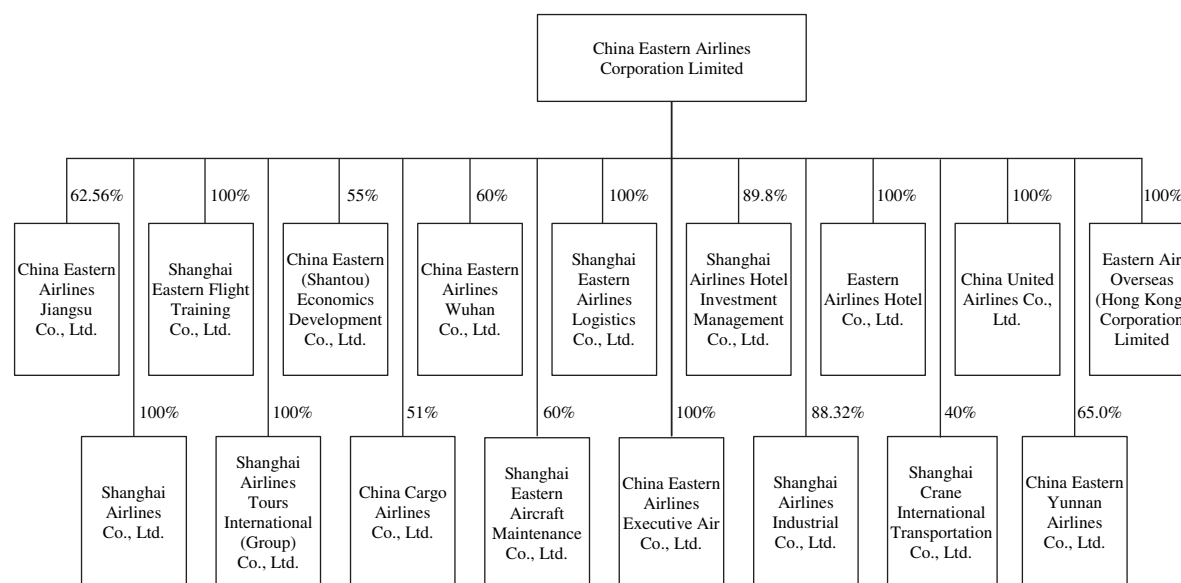
Balance Sheet Data*(prepared and presented in accordance with Hong Kong Financial Reporting Standards)*

	31 December 2011 (audited)	31 December 2012 (audited)	30 June 2013 (unaudited)
	(RMB'000)		
ASSETS			
Non-Current assets			
Amount due from immediate holding company	701,148	460,912	522,820
Amount due from jointly controlled entity	—	6,088	—
Investments in associates	—	—	141,581
	<u>701,148</u>	<u>467,000</u>	<u>664,401</u>
Current assets			
Amount due from immediate holding company	—	1,096,652	2,579,695
Bank deposits and interests receivable	1,815,420	956,309	2,105,241
Cash and cash equivalents	34,275	87,253	105,545
	<u>1,849,695</u>	<u>2,140,214</u>	<u>4,790,481</u>
Total assets	<u><u>2,550,843</u></u>	<u><u>2,607,214</u></u>	<u><u>5,454,882</u></u>
	31 December 2011 (audited)	31 December 2012 (audited)	30 June 2013 (unaudited)
	(RMB'000)		
EQUITY			
Share capital	24,935	24,935	24,935
Accumulated profit/(loss)	(8,037)	6,624	15,640
Total equity	<u>16,898</u>	<u>31,559</u>	<u>40,575</u>
LIABILITIES			
Non-current liabilities			
Debentures payable	2,491,634	2,494,751	4,691,994
Current liabilities			
Borrowings	—	—	548,863
Interest payable	40,833	40,561	46,241
Trade payables	—	2,821	89,467
Amount due to immediate holding company	1,478	34,625	33,063
Tax payable	—	2,897	4,679
	<u>42,311</u>	<u>80,904</u>	<u>722,313</u>
Total liabilities	<u>2,533,945</u>	<u>2,575,655</u>	<u>5,414,307</u>
Total equity and liabilities	<u>2,550,843</u>	<u>2,607,214</u>	<u>5,454,882</u>
Net current assets	<u>1,807,384</u>	<u>2,059,310</u>	<u>4,068,168</u>
Total assets less current liabilities	<u>2,508,532</u>	<u>2,526,310</u>	<u>4,732,569</u>

The Issuer's revenue in 2012 primarily represents the sales of aviation fuel to the Guarantor. The Issuer's revenue in the six months ended 30 June 2013 primarily represents the sales of aviation fuel to the Guarantor. Finance income comprise primarily interest income on short-term cash deposits, whilst finance costs comprise primarily interest expenses in connection with CNY denominated bonds in an aggregate principal amount of CNY2.5 billion (at 4 per cent. due 2014) issued on 11 August 2011 and CNY denominated bonds in an aggregate principal amount of CNY2.2 billion (at 3.875 per cent. due 2016) issued on 5 June 2013.

HISTORY AND DEVELOPMENT OF THE COMPANY

The Guarantor was established on 14 April 1995 under the laws of China as a company limited by shares in connection with the restructuring of its predecessor and its initial public offering. The Guarantor's predecessor was one of the six original airlines established in 1988 as part of the decentralisation 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 its initial public offering, the Guarantor's predecessor was restructured into two separate legal entities, the Guarantor and the Eastern Air Group Company, or "EA Group". According to the restructuring arrangement, by operation of law, the Guarantor succeeded to substantially all of the assets and liabilities relating to the airline business of its predecessor. EA Group succeeded to its predecessor's assets and liabilities that do not directly relate to the airline operations and do not compete with the Guarantor's businesses. Assets transferred to EA Group included the Guarantor's 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, the Guarantor entered into various agreements with EA Group and its subsidiaries for the provision of certain services to the Guarantor. China Eastern Air Holding Company, or 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. The following chart sets forth the organisational structure of the Guarantor and its significant subsidiaries as at 31 December 2014:



The Guarantor is the first China-based airline to have its shares listed simultaneously on the Hong Kong Stock Exchange, the New York Stock Exchange and the Shanghai Stock Exchange. In February 1997, the Guarantor completed its initial public offering of 1,566,950,000 ordinary H Shares, par value RMB1.00 per share, and listed its ordinary H Shares on The Stock Exchange of Hong Kong Limited, or the "Hong Kong Stock Exchange", and American Depositary Shares, or "ADSs", representing its H Shares, on the New York Stock Exchange. In October 1997, the Guarantor 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 its ordinary shares listed on the Hong Kong Stock Exchange, and A Shares are its ordinary shares listed on the Shanghai Stock Exchange. The Guarantor's 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.

Since its initial public offering, the Guarantor has expanded its operations through acquisitions and joint ventures. In July 1998, the Guarantor and China Ocean Shipping (Group) Company jointly established China Cargo Airlines, which specialises in the air freight business. In addition, the Guarantor purchased from EA Group the assets and liabilities relating to the 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, the Guarantor completed its acquisition of Air Great Wall in June 2001 and established its 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, the Guarantor, jointly with the 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 the Guarantor held a 40 per cent. equity interest. CEA Wuhan’s operating results were consolidated with the Guarantor from January 2006, when the Guarantor obtained control of CEA Wuhan. In March 2006, the Guarantor completed its acquisition of a 38 per cent. equity interest and a 18 per cent. equity interest in CEA Wuhan from the 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. In 2012, the existing shareholders of CEA Wuhan and certain new investors (thereby becoming shareholders) decided to increase the registered capital of CEA Wuhan from RMB600 million to RMB1,750 million. As at 31 December 2012, the Guarantor had contributed capital of RMB525 million in cash, among which RMB237 million was recognised as registered capital and RMB288 million was credited to the share premium of CEA Wuhan; and the other investors had contributed capital of RMB300 million, among which RMB288 million was recognised as registered capital and RMB12 million was recognised as share premium of CEA Wuhan. As a result of the aforementioned capital increase, the Guarantor’s share percentage in CEA Wuhan has become 60 per cent. 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 its business and enhance its market competitiveness, the Guarantor acquired from CEA Holding certain selected assets and liabilities relating to the aviation businesses of CEA Yunnan and CEA Northwest on 12 May 2005. The assets acquired by the Guarantor included aircraft, engines and aviation equipment and facilities, certain employees and operating contracts, and other fixed and current assets (whether owned or leased). The Guarantor assumed and took over the aviation operations and businesses previously carried out by CEA Yunnan and CEA Northwest. The air routes of CEA Yunnan and CEA Northwest were also injected into the Guarantor with such assets and liabilities.

On 14 March 2006, the Guarantor entered into an official sponsorship agreement with the Bureau of 2010 Expo Shanghai (the “Bureau”), which designated the Guarantor as the exclusive airline passenger carrier in China to sponsor the 2010 Shanghai Expo. Pursuant to the agreement, the Guarantor was 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. The Guarantor was also able to enjoy the privileges of being a market development participant of the World Expo.

On 10 December 2008, the Guarantor entered into an A Share Subscription Agreement with CEA Holding for CEA Holding to subscribe for new A shares to be issued by the Guarantor, and entered into an H Share Subscription Agreement with CES Global Holdings (Hong Kong) Limited, (“CES Global”), a wholly owned subsidiary of CEA Holding, for CES Global to subscribe for new H shares to be issued by the Guarantor. Both of these agreements were amended on 29 December 2008. Under the amended agreements, the Guarantor 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 26 February 2009, the Guarantor 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. The Guarantor 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 25 June 2009 and 26 June 2009, respectively.

On 10 July 2009, the Guarantor’s Board approved an issuance of 1,350,000,000 new A shares of the Guarantor to a limited number of specific investors, including CEA Holding, and the issuance of 490,000,000 new H shares of the Guarantor to CES Global. The issuances of the 1,350,000,000 new A shares and 490,000,000 new H shares were completed on 23 December 2009 and 10 December 2009, respectively.

On 10 July 2009, the Guarantor 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 the Guarantor on 9 October 2009. On 30 December 2009, the Guarantor received approval of its proposed acquisition of Shanghai Airlines from the China Securities Regulatory Commission, or the “CSRC”. On 28 January 2010, the Guarantor 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, the Guarantor 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 the two airlines’ frequent flyer mileage programmes.

On 26 July 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 the Guarantor to jointly establish Eastern Airlines Yunnan Limited Corporation, or EA Yunnan. The Guarantor will contribute 65 per cent. of the registered capital of EA Yunnan, with the remaining 35 per cent. contributed by Yunnan SASAC. As at 31 December 2012, the Guarantor has completed its capital contribution whilst Yunnan SASAC has not yet completed its capital contribution. EA Yunnan will focus on the provision of general civil aviation transportation and maintenance services.

On 20 December 2010, China Cargo Airlines, a subsidiary of the Guarantor, 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 the Guarantor and enhances China Cargo Airlines’ capability for sustainable development, whilst avoiding horizontal competition. China Cargo also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. Both acquisitions have obtained approval from the CAAC, the NDRC, and the MOFCOM, and were completed on 1 June 2011.

On 11 August 2011, the Issuer issued offshore CNY denominated bonds in an amount of CNY2.5 billion at 4 per cent. due 2014 which are listed on the Singapore Exchange Securities Trading Limited. The Guarantor guaranteed the bond issue.

On 23 March 2012, the Guarantor entered into a binding MOU with Jetstar Airways, a wholly owned subsidiary of Qantas, to establish Jetstar Hong Kong, a new joint venture low-cost airline to be based in Hong Kong. On 24 August 2012, the Issuer entered into a Shareholders’ Agreement with JIGH, a wholly owned Hong Kong-based subsidiary of Qantas Airlines, pursuant to which the Issuer

and JIGH invested in Jetstar Hong Kong. The Guarantor and JIGH have made equal initial capital contributions of US\$57.5 million each, and the joint venture, Jetstar Hong Kong, will have a total initial capital of US\$115 million. Depending on certain terms and conditions, the Guarantor and JIGH will each contribute equal capital amounts to increase the capital of Jetstar Hong Kong to US\$198 million. Under the terms of the MOU and Shareholders Agreement, the Guarantor and JIGH will hold equal equity interests in Jetstar Hong Kong. In September 2012, Jetstar Hong Kong received the Certificate of Incorporation issued by the relevant Hong Kong government authorities. In January 2013, Jetstar Hong Kong successfully passed MOFCOM's merger review. On 5 June 2013, the Issuer, JIGH and Go Harvest Investments Limited ("Shun Tak Investor"), a wholly owned Hong Kong-based subsidiary of Shun Tak Holdings Limited, entered into a restated and amended shareholders' agreement (the "Restated and Amended Shareholders Agreement"). Pursuant to the Restated and Amended Shareholders Agreement, Shun Tak Investor would become a new strategic shareholder of Jetstar Hong Kong and hold 33 $\frac{1}{3}$ per cent. of the total issued share capital of Jetstar Hong Kong.

On 27 April 2012, the board of directors of the Guarantor resolved and approved to issue short-term commercial paper in the aggregate principal amount of not more than RMB10 billion and for a term of not more than 270 days for each issuance, which can be issued in multiple tranches on a rolling basis. On 13 September 2012, the Guarantor issued the first tranche of short-term commercial paper in the amount of RMB4 billion at 4.1 per cent., due within 270 days of the issuance. The proceeds from this issuance were to be used to repay bank loans, improve the Guarantor's financing structure and replenish short-term working capital.

On 12 June 2012, the board of directors of the Guarantor resolved and approved to issue corporate bonds in the aggregate principal amount of not more than RMB8.8 billion and for a term of not more than ten years for a single or multiple issuances. The Guarantor received CSRC approval for this issuance on 12 December 2012. On 18 March 2013, the Guarantor issued the first tranche of corporate bonds in the amount of RMB4.8 billion at 5.05 per cent. due 2023. The proceeds from this issuance were to be used to repay bank loans, improve the Guarantor's financing structure and replenish short-term working capital.

On 11 September 2012, the board of directors of the Guarantor resolved and approved the "Proposal for the non-public issuance of A Shares to specific places by China Eastern Airlines Corporation Limited" and the "Proposal for the non-public issuance of H Shares to specific places by China Eastern Airlines Corporation Limited," according to which, (i) CEA Holdings and CES Finance Holding Co. Ltd ("CES Finance") would subscribe in cash for 241,547,927 and 457,317,073 new A Shares, respectively, at the subscription price of RMB3.28 per share; and (ii) CES Global would subscribe in cash for 698,865,000 new H Shares (nominal value of RMB1.00 each) at the subscription price of HK\$2.32 per share. On 31 January 2013, the CSRC approved the Guarantor's proposed issue of no more than 698,865,000 new H Shares with a nominal value of RMB1.00 each. The Public Offering Review Committee of CSRC reviewed and conditionally approved the Guarantor's application relating to the non-public issue of new A Shares of the Guarantor on 25 February 2013. The issuance of the 698,865,000 new A shares was completed on 18 April 2013 and the issuance of the 698,865,000 new H shares was completed on 21 June 2013.

On 27 December 2012, the Guarantor's wholly-owned subsidiary, Shanghai Airlines Tours International (Group) Co., Ltd. ("Shanghai Tours") entered into an equity transfer agreement with Eastern Air Tourism Investment Group Co., Ltd. ("Eastern Tourism"), a wholly-owned subsidiary of CEA Holding, and Shanghai Dongmei Aviation Travel Co., Ltd. ("Shanghai Dongmei") which is held as to 72.84 per cent. by Eastern Tourism and 27.16 per cent. by the Guarantor, pursuant to which Shanghai Tours purchased the entire issued share capital of Xi'an Dongmei Aviation Travel Co., Ltd. ("Xi'an Dongmei") held by Eastern Tourism and Shanghai Dongmei. Upon completion of this acquisition, Xi'an Dongmei becomes an indirect wholly-owned subsidiary of the Guarantor. The consideration was determined based on the appraised value of the net assets of Xi'an Dongmei.

On 27 December 2012, Shanghai Tours entered into an equity transfer agreement with Eastern Tourism and Shanghai Dongmei, pursuant to which, Shanghai Tours purchased the entire issued share capital of Kunming Dongmei Aviation Travel Co., Ltd. (“Kunming Dongmei”) held by Eastern Tourism and Shanghai Dongmei. Upon completion of this acquisition, Kunming Dongmei becomes an indirect wholly-owned subsidiary of the Guarantor. The consideration was determined based on the appraised value of the net assets of Kunming Dongmei.

On 10 January 2013, Shanghai Tours entered into an equity transfer agreement with Eastern Tourism, pursuant to which Shanghai Tours purchased the entire issued share capital in Shanghai Eastern Air International Travel Service Co., Ltd (“Eastern Travel”) held by Eastern Tourism. Upon completion of this acquisition, Eastern Travel becomes an indirect wholly-owned subsidiary of the Guarantor. The consideration was determined with reference to the appraised value of the net assets of Eastern Travel as set out in the Eastern Travel’s valuation report prepared using the assets-based approach, and after fair price bidding through China Assets and Equity Exchange Quotation Website.

On 5 June 2013, the Guarantor issued the guaranteed bonds in the amount of RMB2.2 billion at 3.875 per cent. due 2016. The proceeds from this issuance were to be used for working capital and other general corporate purposes.

On 7 June 2013, the Guarantor issued the first tranche of super short-term commercial paper in the amount of RMB4 billion at 3.95 per cent., due within 270 days of the issuance. The proceeds from this issuance were to be used to replenish corporate working capital.

On 30 August 2013, the Guarantor renewed a series of agreements for the provision of goods and/or services with certain members of the CEA Holding Group and the Group, including (i) property leasing agreement with China CEA Holding, (ii) financial services agreement with Eastern Air Group Finance Company Limited, (iii) import and export agency agreement with Eastern Aviation Import & Export Company, (iv) catering services agreement with Eastern Air Catering Investment Co. Ltd., (v) sales agency services agreement with Shanghai Dongmei, (vi) maintenance and repair services agreement with CEA Development Co., and (vii) advertising services agreement with Eastern Aviation Advertising Company Limited.

On 24 December 2013, the Guarantor and CEA Holding, both being the shareholders of China Eastern Airlines Media Co., Ltd. (“CES Media”) passed a shareholders’ resolution regarding the capital injection in CES Media. Upon completion of this capital injection, the total registered capital of CES Media has increased by RMB80 million from RMB120 million to RMB200 million, while the respective 45 per cent. and 55 per cent. equity interests held by the Guarantor and CEA Holding in the then enlarged registered capital of CES Media remain unchanged. Out of the RMB80 million contributed to the registered capital of CES Media under this capital injection, the Guarantor contributed a pro-rata amount of RMB36 million in cash and CEA Holding contributed the remaining pro-rata amount of RMB44 million in cash.

The table below sets forth details of the Company's operating fleet since 2010 and planned additions for the years 2014 and 2015:

	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	No. of Aircraft Including Planned Additions	
	2011		2012		2013		2014	2015
A340-600	5	—	5	—	5	—	4	—
A340-300	5	—	—	—	—	—	—	—
A330-300	8	7	8	7	8	7	16	18
A330-200	4	3	10	3	18	3	28	33
A300-600R	7	—	7	—	7	—	—	—
A321	22	—	27	—	33	—	39	48
A320	88	24	98	33	107	44	153	153
A319	5	10	12	8	15	8	30	35
B737-800	16	48	17	56	28	66	111	134
B737-700	35	19	37	18	42	17	63	63
B737-300	16	—	16	—	16	—	16	5
B757-200	5	5	5	5	5	5	7	—
B767	6	1	6	1	6	1	6	6
B777-300ER	—	—	—	—	—	—	4	9
EMB145LR	10	—	10	—	10	—	10	5
CRJ-200	8	—	8	—	8	—	—	—
Hawker800	1	—	—	—	—	—	—	—
A300-600R	3	—	3	—	1	—	—	—
B747-400F	2	3	2	3	2	3	4	4
MD-11F	—	3	—	3	—	—	—	—
B757-200F	—	2	—	2	—	2	2	2
B777F	—	6	—	6	—	6	6	6
Total	<u>46</u>	<u>131</u>	<u>271</u>	<u>145</u>	<u>305</u>	<u>160</u>	<u>499</u>	<u>521</u>

INDUSTRY OVERVIEW

Certain information and statistics set out in this section is for information purposes only and is based on, or derived or extracted from, among other sources, government publications, market data providers or other independent third-party sources unless otherwise indicated. Such information is subject to change and cannot be verified with complete certainty due to limitations on the availability and reliability of the raw data and other limitations and uncertainties inherent in any market study and statistical survey. The Issuer and the Guarantor have taken reasonable care in the compilation and reproduction of the information. However, none of the Issuer, the Guarantor and the Joint Lead Managers, nor any of their respective affiliates or advisers, or any other party involved in the Offering, has independently verified such information. Accordingly, such information should not be unduly relied upon.

Growth Trends

China's aviation market is one of the fastest growing and largest in the world. Between 2006 and 2012, passenger traffic of Chinese airlines measured by RPKs grew at a compound annual rate of 13.4 per cent., increasing from 235,960 million RPKs in 2006 to 501,067 million RPKs in 2012. Over the same period, cargo traffic of Chinese airlines measured by RFTKs grew at a compound annual rate of 10.2 per cent., increasing from 9,070 million RFTKs in 2006 to 16,216 million RFTKs in 2012. As a result, the total air traffic of Chinese airlines measured by RTKs grew at a compound annual rate of 12.2 per cent. between 2006 and 2012.

The table below sets forth certain operating data of Chinese airlines from 2006 to 2012:

Year	Passengers Carried	Passenger Traffic (RPKs)	Cargo and Mail Carried (tonnes)	Cargo and Mail (RFTKs)	Total Traffic (RTKs)
(in millions, except percentages)					
2006	160	235,960	3.5	9,070	30,580
2007	186	277,633	4.0	11,470	36,530
2008	193	286,556	4.1	11,770	37,680
2009	231	337,488	4.5	12,627	42,710
2010	268	403,618	5.6	17,662	53,850
2011	293	451,671	5.6	17,166	57,740
2012	319	501,067	5.4	16,216	61,030
Cumulative annual growth rate ("CAGR"): 2006-2012	12.2%	13.4%	7.5%	10.2%	12.2%

Source: CAAC Annual Statistical Reports, 2006-2012

China's air passenger and cargo markets present opportunities for further growth. The air passenger market remains significantly under-penetrated when compared to more developed markets such as the United States or Europe. In 2012, the Chinese aviation industry handled only 0.24 air trip per capita in 2012 compared to 2.33 air trips in the United States in 2012 according to official statistics published by CAAC and the U.S. Federal Aviation Administration. The Chinese government set initiatives in 2012 to increase air trip per capital to 0.50 by 2020. According to Current Market Outlook 2013 to 2032 by Boeing, China is projected to be one of the fastest growing aviation market over the next 20 years with the average growth rates of RPKs and RFTKs both to be 6.9 per cent.

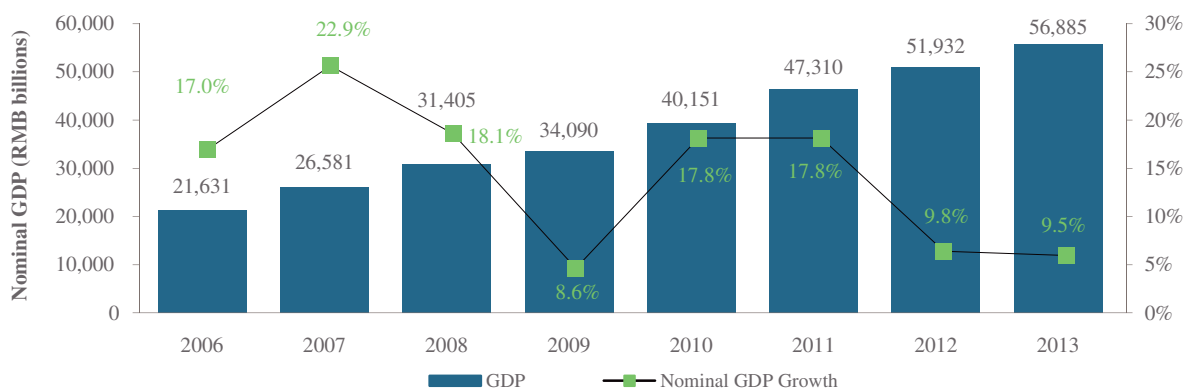
The key drivers for the growth of the aviation industry in China are:

- Robust economic growth in China;
- Expansion of international trade;
- Urbanisation driving demand for air travel; and
- Growing disposable income leading to shift in transportation preference.

Robust economic growth in China

Economic growth is the cornerstone of air traffic growth. Historically, China’s air traffic growth has been positively correlated with the country’s economic growth. Since 1979, China’s growth has been unprecedented. Nominal gross domestic product (“GDP”) grew at a CAGR of approximately 14.8 per cent. from RMB21,631 billion in 2006 and reached RMB56,885 billion in 2013. According to Current Market Outlook 2013 to 2032 by Boeing, China’s GDP is forecast to grow at an average rate of 6.4 per cent. over the coming two decades and China’s share of the total world GDP is expected to grow to 16 per cent. by 2032.

The chart below sets out the nominal GDP and the nominal GDP growth in China between 2006 and 2013:

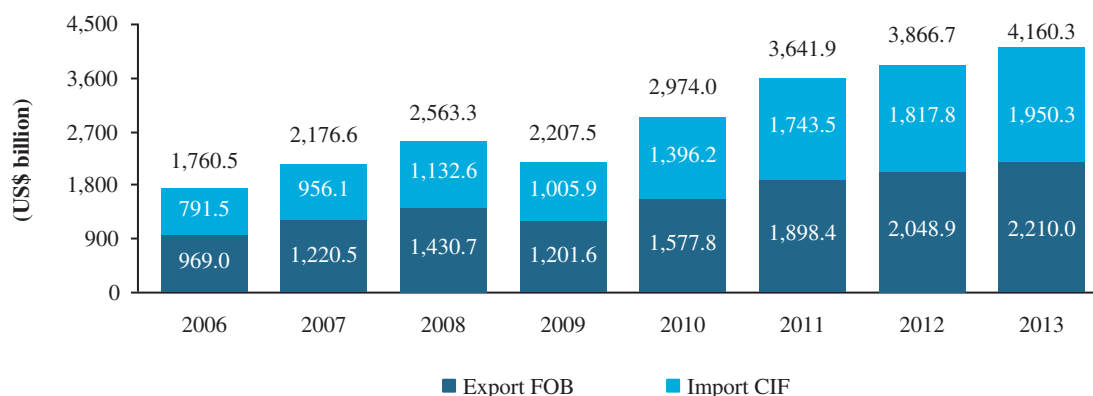


Source: China Statistical Yearbook

Expansion of international trade

An increase in China’s overall trade volume with its trading partners contributes to air traffic growth. China overtook the U.S. as the world’s largest trading nation in 2013. China’s overall trade volume has been growing significantly since China’s entry to the World Trade Organisation (“WTO”) and regional trade initiatives such as the Closer Economic Partnership Agreement between the Mainland of China and Hong Kong and the Framework Agreement on Comprehensive Economic Co-Operation between China and the Association of South East Asian Nations (“ASEAN”). Such trade initiatives, combined with the expansion of China’s manufacturing base, increase China’s overall trade volume and generate greater demand for business travel and cargo services.

The chart below sets out the total exports (on FOB basis) and imports (on CIF basis) of China between 2006 and 2013:

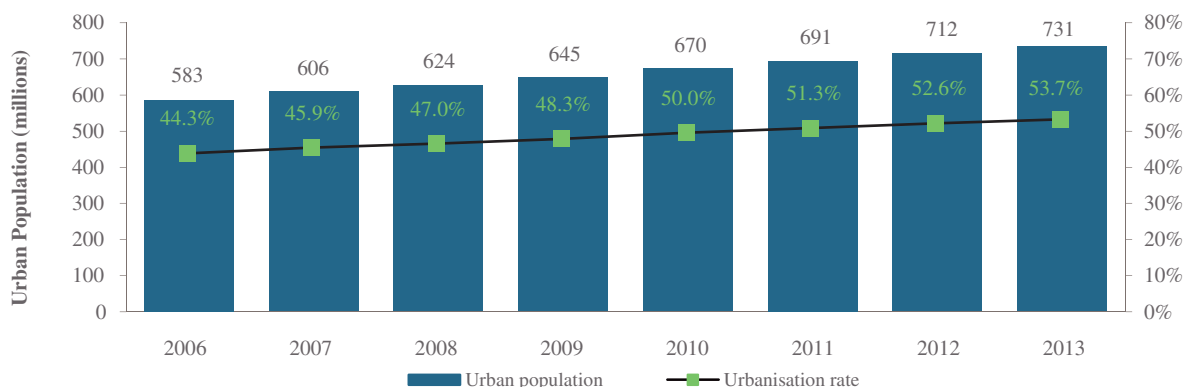


Source: CEIC

Urbanisation driving demand for air travel

The urbanisation rate and the level of economic development in China are correlated. According to the National Statistics Bureau, the urban population in China exceeded that of the rural population for the first time at the end of 2011. The number of urban dwellers in China rose from 583 million in 2006 to 731 million in 2013, representing 44.3 per cent. and 53.7 per cent. of the total population respectively. As urbanisation leads to greater economic growth and per capita GDP, the demand for air travel increases. This is shown by the close correlation between the growth of urbanisation and passenger traffic measured by RPKs in China (see “Growth Trends”).

The chart below illustrates the historical urban population and urbanisation rate in China between 2006 and 2013:

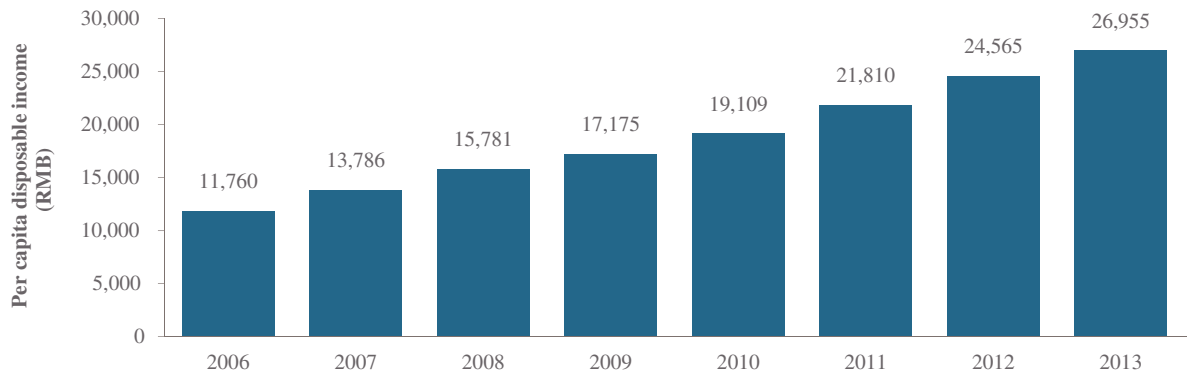


Source: National Statistics Bureau

Growing disposable income leading to shift in transportation preference

Annual disposable income of urban households per capita grew at a CAGR of 12.6 per cent. from RMB11,760 in 2006 to RMB26,955 in 2013. As income levels rise, consumers have a larger propensity to spend on tourism and sight-seeing both domestically and overseas. Air transportation has become a preferred alternative form of transportation for China’s growing middle class, with their higher disposable incomes. According to the World Tourism Organisation, 52 per cent. of all international tourist arrivals in 2012 were made possible due to air transport. Historically driven by Europe, international tourists are increasingly coming from the Asia-Pacific. For the first time, in 2012, China was the number one country in terms of tourism spending with a total of US\$102 billion.

The chart below illustrates the per capita annual disposable income of urban households in China between 2006 and 2013:



Source: National Statistics Bureau

Development of the Aviation Industry in China

The Chinese aviation industry has undergone significant reform and restructuring in the past 25 years. In 2002, just after the accession of China to the WTO, the government decided to consolidate the sector to improve efficiency in order to better compete with foreign carriers. Three main airlines were thus formed:

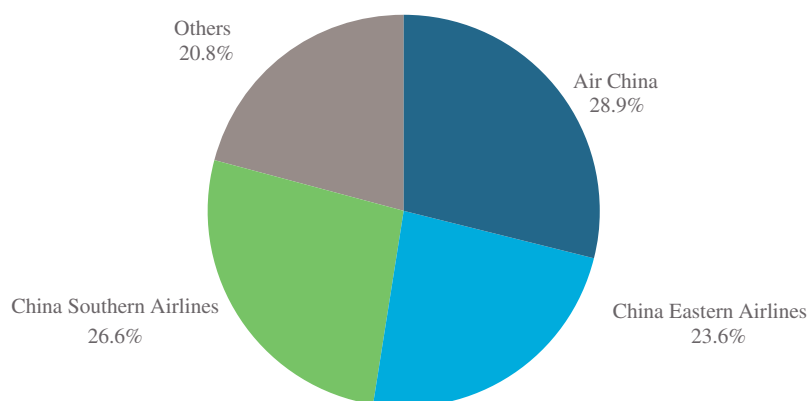
- China Eastern Airlines Group — formed following the merger of China Eastern Airlines, China Northwest Airlines and Yunnan Airlines;
- Air China Group — formed following the merger of Air China, China Southwest Airline and China National Air Corporation; and
- China Southern Airlines Group, formed following the merger of China Southern Airlines, China Northern and Xinjiang Air.

A second wave of consolidation followed later in the decade:

- China Eastern Airlines taking full control of Shanghai Airlines in February 2010;
- Air China taking a majority stake in Air Macau in 2009, Shenzhen Airlines in 2010 and Dalian Airlines in 2011; and
- China Southern Airlines holding a majority interest in Xiamen Airlines and some other smaller carriers.

Today, the three largest airlines play a vital role in the aviation market in China. According to CAAC Annual Statistical Report 2012, they collectively commanded a market share of approximately 78 per cent. in terms of RTKs.

The chart below illustrates the three largest airlines' market share in China in terms of RTKs in 2012:



Source: CAAC Annual Statistical Report, 2012

Government Regulation and Support

CAAC is the aviation industry regulator focusing on the formulation of industry policies and guidelines, monitoring market development, managing competition, improving safety of flight operations, and enforcing industrial standards and international practices. The CAAC has also implemented a number of reforms aimed at improving the efficiency, transparency and competitiveness of China's domestic airline market. In recent years, the Chinese government has deregulated many aspects of China's domestic aviation industry and allowed international and regional passenger, cargo and airline-related service providers greater access to China's aviation market.

Despite the fact that the Chinese government has gradually opened up the Chinese aviation market, there are restrictions imposed on foreign ownership in Chinese airlines. Under the current CAAC policies, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot individually or together hold a majority of a PRC airline's total outstanding shares.

Currently, China Eastern Airlines, Air China, and China Southern Airlines are majority-owned by the SASAC. The government's role in the Chinese airline sector has been crucial over the years. The government regulates the market and provides support to the key airlines. In particular, to counter the industry downturn caused by the global financial crisis, the Chinese government, among other measures, injected capital to recapitalize the three airlines.

On 8 July 2012, the State Council outlined in the Initiatives Aimed at Promoting the Long-term Development of the Aviation Industry (國務院關於促進民航業發展的若干意見) that the government will continue to foster air traffic growth. The initiatives state, amongst others, the following goals:

- To grow total capacity to 170,000 million RTKs by 2020;
- To increase air trip per capita to 0.5 by 2020; and
- To establish an equity investment fund for civil aviation and encourage banks to provide financial support to further develop the aviation leasing industry and extend credit support for the purchase of new aircraft.

On 14 January 2013, the State Council further stipulated in the Key Work Plan to Promote the Long-term Development of the Aviation Industry (促進民航業發展重點工作分工方案的通知) that specified tasks had been assigned to the relevant government ministries to, amongst other things, improve the competitiveness of PRC airlines in the international market and provide more comprehensive financial support to the PRC aviation industry.

Market Competition and Collaboration

The emergence of LCC, and the expansion of the HSR network in China, as well as the formation of alliances between airlines are expected to have varying impact on the industry.

Emergence of LCC

LCCs are now a global phenomenon, especially in Europe and increasingly in Asia, the Middle East and Africa. LCC growth in Asia, including China, is mainly driven by the liberalisation of air services and rising middle-class. Growth in demand for LCC services is typically attributable to demand from first-time air travellers, passengers with relatively flexible travel schedules and existing travellers choosing to travel more. The presence of LCCs in the aviation industry may diminish the ability of full service carriers (“FSC”) to achieve sustained profitability in certain key domestic and regional markets. FSCs’ responses to the competitive pressure posted by LCCs include differentiation through premium services and branding, offering promotional fares, establishing low-cost subsidiaries, and reducing their cost base.

Impact of high speed rail (HSR)

China’s unprecedented HSR programme entails a RMB2 trillion investment in a network of 13,000 kilometres, more than the rest of the world combined. The table below sets forth the main framework of China’s HSR network:

<u>“Four Vertical” Routes</u>	<u>Length (km)</u>	<u>“Four Horizontal” Routes</u>	<u>Length (km)</u>
Beijing-Shanghai	1,318	Xuzhou-Zhengzhou-Lanzhou	1,400
Beijing-Wuhan-Guangzhou-Shenzhen	2,260	Hangzhou-Nanchang-Changsha	880
Beijing-Shenyang-Haerbin	1,700	Qingdao-Shijiazhuang-Taiyuan	770
Hangzhou-Ningbo-Fuzhou-Shenzhen	1,600	Shanghai-Nanjing-Hefei-Wuhan-Chongqing-Chengdu	2,078

Competition between transport by HSR and by air exists in certain market segments where the distance travelled allows rail travel to compensate for the faster travel speed of aircraft. This can be because access time from a city centre to a train station is sometimes shorter than to an airport. Less onerous passenger and baggage handling procedures at train stations can also contribute to competitive travel times by train.

According to Current Market Outlook 2013-2032, out of roughly 1,350 domestic city pairs served by airlines, about 200 are on the HSR network. For markets with more than twice-daily service, only 17 have experienced more than a 25 per cent. reduction in capacity since 2009. Indeed, HSR in China is relatively new, with the first lines having been completed over the past few years. Therefore, a longer period of time is needed to evaluate the exact amount of air traffic transferred to rail transport as a result of the HSR.

HSR could compete with some airlines in high-volume, high-yield markets. Yet, aviation’s network connectivity simply cannot be replicated by ground-based modes. Whilst HSR and air transport might face mutual competition in certain market segments, there is potential for the advantages of both transport modes to be combined to provide an integrated bundled offering to passengers. See “Marketing and Sales — Passenger Operations”.

Benefits of airline alliances

Alliances between airlines on international markets have become a dominant feature of the airline industry. Many customers want a “point to point” service which a single airline cannot offer because of limited economies of scale in operations and legal barriers to market entry and cross-border merger. The resulting need for cooperation among networks has led to a rapid expansion of alliance relationships which are aimed at benefitting passengers through interlinking trips, both in terms of improved service and lower fares. As of today, there are three competing strategic international alliances in the industry: Star Alliance, oneworld, and SkyTeam, launched between 1997 and 2001 and, currently, each of them having a dozen or more airline members. In 2013, the majority of large FSCs were aligned in one of the three alliances.

DESCRIPTION OF THE COMPANY'S BUSINESS

BUSINESS OVERVIEW

The Company was one of the three largest air carriers in China in terms of RTK and number of passengers carried in 2013, and is an important PRC airline with strategic hubs in Shanghai, Kunming and Xi'an. The Company serves a route network that covers over 1,000 domestic and foreign destinations in around 187 countries through SkyTeam. The Company operates 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 by total freight weight and total passenger numbers in China in 2013), respectively, as well as Kunming Changshui International Airport and Xi'an Xianyang International Airport. In the first half of 2013, the Company accounted for 48.8 per cent., 37.4 per cent., 45.0 per cent. and 31.3 per cent. of the market share at Hongqiao International Airport, Pudong International Airport, Kunming Changshui International Airport and Xi'an Xianyang International Airport, respectively, in terms of passenger throughput.

COMPETITIVE STRENGTHS

The Company's vision is to become a leading airline in Asia and a leading global competitor, with the mission of emphasizing staff loyalty, customer preference, investor satisfaction and strong social responsibility. The Company believes that its business model is favourable to that of other major airlines in a number of significant respects, which the Company intends to continue to pursue. The Company's main competitive strengths include the Company's status as a Central SOE (which is defined as an enterprise directly and majority owned by the SASAC), its position to benefit from the continued high growth of China's aviation market, its favourable connectivity and geographical position, its high operating efficiency, its improved financial and liquidity position, its strategic SkyTeam alliance membership, its experienced management team and sound corporate governance, as well as strong recognition of the China Eastern Airlines brand.

A Central SOE with strong and direct support from the PRC central government

CEA Holding is one of the 113 Central SOEs directly supervised by the SASAC of the PRC central government. The Guarantor is 64.35 per cent. owned by CEA Holding, which in turn is 100 per cent. owned by the SASAC. CEA Holding was ranked as one of the 46 Class A Central SOEs by SASAC in 2012. The Guarantor enjoys a number of direct and indirect benefits as a result of its status as a Central SOE. For example, to further improve the financial position of the Guarantor and to enhance its competitiveness in the international aviation market, the SASAC has through CEA Holding and CES Finance injected capital in the amount of RMB2,292.3 million into the Guarantor on 18 April 2013. The Guarantor believes that its status as a Central SOE well positions it to better execute its business plan and to more directly benefit from China's high economic growth.

Well positioned to benefit from the continued high growth of China's aviation market

The Company believes that, based on its established market position and geographic location, it is well-positioned to continue to take advantage of the opportunities presented by China's civil aviation market growth. China's civil aviation market, as measured by RPK and RFTK, grew by a CAGR of more than 10 per cent. from 2006 to 2012. Civil aviation penetration among China's population remains low at 0.24 trip per capita in 2012. According to the Initiatives Aimed at

Promoting the Long-term Development of the Aviation Industry (國務院關於促進民航業發展的若干意見) promulgated on 8 July 2012, China's civil aviation industry is expected to achieve an annual total capacity of 170 billion RTKs and an air trip per capita of 0.5 by the year of 2020. The Company believes its bases in Kunming and Xi'an render it well placed to capitalise on the economic growth of western China, which has a faster growth rate relative to eastern China.

Favourable connectivity and geographical position

The Company believes that the operation of its services through its hub in Shanghai, combined with its current network that covers over 1,000 domestic and international destinations in around 187 countries through SkyTeam and its high frequency of flights, allow it to maximise connectivity across the markets and locations that it serves. Shanghai is China's leading international financial centre and international shipping centre. Shanghai handled the largest amount of cargo freight in terms of freight and cargo traffic and the second largest number of flight passengers in terms of passenger traffic among all cities in China in 2012. The Company also strategically develops its hubs in Beijing, which handles the largest number of flight passengers and the second largest amount of cargo freight in China, and from the leading airports in north-west and south-west China (Xi'an and Kunming, respectively). The Company has also developed cooperation with strategic partners to enhance its hub network. For example, in response to the competition from HSR network, the Company has cooperated with the Shanghai Railway Bureau to launch "Air-Rail Pass Transportation" products offering combined air and rail service package in 13 cities in the Yangtze River Delta, including Nanjing, Hangzhou and Suzhou in 2012.

On 21 June 2011, the Company became a member of SkyTeam. The Company's membership in SkyTeam has raised the Company's standards in terms of marketing, service and other areas and further strengthened its market presence and traffic volume in the international civil aviation market by offering the Company's customers more value and choice when making their international travel plans. As a SkyTeam member, the Company benefits from its strategic alliance with well-known airlines such as Delta, China Southern, Alitalia, Air France and KLM, which allows its passengers to enjoy benefits such as increased flight choice to fit their travelling schedules and destinations, smoother transfers for travel across the global network, priority check-in and enhanced frequent flyer programme benefits.

Strong brand recognition associated with top quality customer service

The Company believes that it is one of the most respected brands in China. It strives to improve its customers' travel experience on the ground and in the air, through continual product and service improvement. The Company's continued investment in new aircraft and on-board product across its fleet further demonstrates its commitment to customer service and further strengthen its brand and services. The Company believes that the quality of the service which it offers and the strength of its brand are critical to its continuing success and intends to continue focusing on developing its brand. It was recognized as one of the "Most Innovative PRC Companies" by Fortune Magazine in 2011, and its "China Eastern Airlines" brand was awarded China's Famous Trademark by the State Administration for Industry and Commerce in 2011. In addition, in 2012, the Company received various recognitions and awards, including "The World's Most Improved Airline" by SKYTRAX, a United Kingdom-based aviation research organization, "Golden Tripod Prize", which was the highest

award given at the 8th Annual Meeting of China's Securities Market, Golden Bauhinia Award for "The Listed Company with Best Brand Value 2012" by China Securities, "2012 Best Mid-Cap Company and Best Managed Company in China" by Asiamoney Magazine, "Top 50 Most Valuable Chinese Brands" by WPP, a global brand communication and public relations firm, 2012 TOP 25 CSR (Corporate Social Responsibility) Ranking" by Fortune China Magazine, and "2012 China State-owned Listed Enterprise Social Responsibility Rankings Top 20" by Southern Weekly. In 2013, the Company was awarded "Top Ten Airline Companies" at the "2013 China Travel Award" ceremony held by "Travel+Leisure" Magazine.

Economies of scale and high and improved operating efficiency

The Company has ranked as one of the 10 largest airlines in the world by IATA in terms of number of scheduled passengers carried. Leveraging its economies of scale, the Company has continued to improve operating efficiency in recent years and intends to maintain its improved operating efficiency. The Company's operating efficiency is indicated by its annual fleet average utilisation rates which were 9.8 hours per passenger aircraft per day and 9.7 hours per cargo aircraft per day in 2013, respectively, compared to the industry average of 9.2 hours per aircraft per day according to the 2012 Statistical Bulletin of the Development of Civil Aviation Industry published by the CAAC.

Improved financial and liquidity position and diversified sources of funding

The Company's financial and liquidity position have strengthened considerably since 2010. The Company's liability ratio (defined as total liabilities divided by total assets) improved from 84.0 per cent. as at the end of 2010 to 80.6 per cent. as at 30 June 2013. The Company's outstanding funding has been obtained from a number of different sources, including funds generated from operation, operating leases, commercial bank lending, export credit guaranteed bank funding and debt securities issued into the capital markets. Accordingly, the Company has established, and intends to maintain, a diversified portfolio of funding without the need to rely on any single source of funding.

Experienced management team and sound corporate governance

The Company believes that its management team is well experienced in the civil aviation industry and is capable of providing expertise to achieve the Company's business objectives. The Company's board is currently composed of 11 directors, five of whom are independent non-executive directors. The Company's Chairman, Mr. Liu Shaoyong, joined the civil aviation industry in China in 1978. Since his appointment as Chairman of the Company, Mr. Liu has, among others, managed a series of strategic initiatives such as the merger of the Company with Shanghai Airlines and the restructure of the cargo assets. Mr. Liu also serves as Deputy Party Secretary and President of CEA Holding. Furthermore, the Company's current senior management have implemented a number of important initiatives since 2009, including three key fundraisings for the Guarantor from the government, the absorption of Shanghai Airlines and the consolidation of cargo freight businesses under China Cargo Airlines. See "History and Development of the Company" for details.

STRATEGIES

In addition to pursuing the above competitive strengths, the Company's core strategies are to continue to:

- expand and optimise flight connectivity through the Company's Shanghai hub and code sharing arrangements with alliance partners;
- further promote the China Eastern Airlines brand as a premium brand in China;
- further promote value-added services to its passengers by leveraging the SkyTeam brand;
- train and support its network of domestic sales agents and representatives;
- develop integrated product packages with strategic partners, such as the Shanghai Rail Bureau;
- develop the high-end market through the selective targeting of group customers;
- further improve cost structure and enhance productivity; and
- further pursue industry best practices in operations and management.

The Company's Operations by Activity

The following table sets forth the Company's traffic revenues by activity for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013:

	<u>Year ended 31 December</u>		<u>Six months ended 30 June</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(Millions of RMB)		
Passenger	60,383	61,038	29,414
Cargo and mail	5,482	5,237	2,299
Fuel surcharges	10,649	13,169	6,483
Total traffic revenues	76,514	79,444	38,196

Investors should note that the Company implemented the policy of transformation from business tax to value-added tax in 2012. Therefore the comparison between the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2011 and 2012 is not representative in this regard.

Passenger Operations

The following table sets forth certain passenger operating statistics of the Company by route for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013:

	Year ended 31 December		Six months ended 30 June
	2011	2012	2013
Passenger Traffic (in RPK) (millions)	100,895	109,113	57,855
Domestic	70,933	76,156	39,474
Regional (Hong Kong, Macau and Taiwan)	3,811	3,852	1,956
International	26,151	29,105	16,425
Passenger Capacity (in ASK) (millions)	127,891	136,724	72,946
Domestic	88,013	95,168	49,613
Regional (Hong Kong, Macau and Taiwan)	5,193	5,084	2,640
International	34,685	36,472	20,692
Passenger Yield (RMB)	0.68	0.65	0.60
Domestic	0.69	0.66	0.61
Regional (Hong Kong, Macau and Taiwan)	0.81	0.84	0.86
International	0.63	0.62	0.55
Passenger Load Factor (%)	78.89	79.81	79.31
Domestic	80.59	80.02	79.56
Regional (Hong Kong, Macau and Taiwan)	73.39	75.77	74.10
International	75.40	79.80	79.38

The primary focus of the Company's business is the provision of domestic, regional and international passenger airline services. Currently the Company serves a route network that covers over 1,000 domestic and foreign destinations in around 187 countries through SkyTeam.

In 2012 and in the six months ended 30 June 2013, the Company's domestic routes generated approximately 70.2 per cent. and 67.1 per cent. of its passenger revenues, respectively. The Company's most heavily travelled domestic routes generally link Shanghai to the large commercial and business centres of China, such as Beijing, Guangzhou and Shenzhen.

In 2013, the Company also operated approximately 16 flight routes between mainland China and Hong Kong. In addition, the Company operated approximately 17 routes between mainland China and Taiwan and two routes between mainland China and Macau. The Company's regional routes accounted for approximately 4.4 per cent. and 4.7 per cent. of its passenger revenues in 2012 and in the six months ended 30 June 2013, respectively. In April 2010, the Company entered into a strategic framework agreement with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan. With the continuous increase in cross-strait routes and flight volumes and taking into consideration the long-term growth of routes to Hong Kong, Macau and Taiwan, especially of high-yield corporate seats, the Company expects continued growth in regional operations in 2014.

In 2013, the Company introduced several new international routes, including Qingdao-to-Wuxi-Singapore, Hangzhou-to-Phuket and Hangzhou-to-Bangkok, Beijing-to-Bali, Wenzhou-to-Rome, Xi'an-to-Qingdao-to-Seoul, Hefei-to-Jeju Island, and Qingdao-to-Shanghai-to-San Francisco and many others. The Company has also increased the number of flights for certain international routes during peak travel seasons. In addition, due to the political tensions between China and Japan, certain flights and jet fleet resources that were originally allocated for routes to and from Chinese and Japanese destinations were diverted and re-allocated to China-to-Southeast Asia routes. In 2012 and in the six months ended 30 June 2013, revenues derived from the Company's operations on international routes accounted for approximately 25.3 per cent. and 28.3 per cent. of its passenger revenues, respectively.

Most of the Company's international and regional flights and a substantial portion of its domestic flights either originate or terminate in Shanghai, the central hub of its route network. The Company's operations in Shanghai are conducted at Hongqiao International Airport and Pudong International Airport. Most of the Company's international flights to or from Shanghai originate or terminate at Pudong International Airport. Pudong International Airport is located approximately 30 kilometres from the central business district of Shanghai. The Company moved its operations at Hongqiao International Airport to the newly-constructed terminal two of Hongqiao International Airport on 16 March 2010.

The Company operates most of its flights through its three hubs located in eastern, northwestern and southwestern China, namely Shanghai, Xi'an and Kunming, respectively. With Shanghai as its main hub and Xi'an and Kunming as its regional hubs, the Company believes that it will benefit from the level of development and growth opportunities in eastern, northern and western China as a whole by providing direct services between various cities in those regions and between those regions and other major cities in China. The Company has steadily fostered the construction of the flight network for these core hubs by introducing new flight destinations and increasing the frequency of certain flights, thereby enhancing its transfer and connection capability in these hub markets. By the end of 2013, the Company established a preliminary flight frequency of "four-in-four-out" at Shanghai Pudong International Airport, with "four-in-four-out" currently also being established at Kunming Airport, both of which are expected to increase the transfer and connection services via Kunming to Southeast Asia, South Asia and Western Asia. Xi'an Airport is also in the process of establishing a "three-in-three-out" flight frequency.

The Company will also continue to develop its operations in Beijing and Guangzhou as its principal bases for northern China and southern China, respectively. In particular, the Company has actively strengthened its position in the Beijing market. Facing the relatively saturated time slot resources of flights at Beijing Capital International Airport, the Company integrated China United Airlines, the sole operator of Beijing Nanyuan Airport, and the Hebei Branch of the Guarantor, to establish the new China United Airlines, which has fully utilised the time slots at Nanyuan Airport. China United Airlines has added 21 B737 aircraft, which has led to increased flight frequency from Beijing Nanyuan Airport to Shenzhen, Xiamen and Changsha, and has enhanced the Company's market share in the Beijing market.

Cargo and Mail Operations

The following table sets forth certain cargo and mail operating statistics of the Company by geography for each segment of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013:

	Year ended 31 December		Six months ended 30 June
	2011	2012	2013
Cargo and Mail Traffic (in RFTK) (millions) . .	4,421	4,701	2,298
Domestic	934	923	441
Regional (Hong Kong, Macau and Taiwan) . .	148	117	60
International	3,338	3,661	1,797
Cargo and Mail Capacity (in AFTK) (millions) .	7,152	7,416	3,838
Domestic	1,987	1,966	1,037
Regional (Hong Kong, Macau and Taiwan) . .	312	239	138
International	4,853	5,211	2,663
Cargo and Mail Yield (RMB)	1.83	1.71	1.54
Domestic	1.44	1.44	1.31
Regional (Hong Kong, Macau and Taiwan) . .	4.49	3.94	3.88
International	1.82	1.70	1.52
Cargo and Mail Load Factor (%)	61.81	63.39	59.87
Domestic	47.01	46.92	42.54
Regional (Hong Kong, Macau and Taiwan) . .	47.60	48.91	43.26
International	68.78	70.26	67.48

The Company is required to obtain from the CAAC the right to carry passengers or cargo on any domestic or international route. The Company's cargo and mail business generally utilises the same route network used by its passenger airline business. The Company carries cargo and mail on its freight aircraft as well as in available cargo space on its passenger aircraft. The Company's most significant cargo and mail routes are international routes.

The development of cargo operations is an important part of the Company's growth strategy. As at the end of 2013, the Company had three MD-11F, two B757-200F and six B777F freight aircraft under operating leases for cargo and mail operations. The Company also has one Airbus A300-600R aircraft as well as two Boeing 747-400ER freighters for its 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 MOFCOM, and were completed on 31 May 2011. After the completion of these acquisitions and reorganisations, the new China Cargo Airlines, which is 51 per cent. owned by the Company, officially began its operation on 1 May 2011 and has become the largest air cargo transportation company in the PRC in terms of cargo and mail capacity.

The following table sets forth certain operating statistics of the Company for each of the year ended 31 December 2012 and 2013:

	Year ended 31 December	
	2012	2013
Capacity (in ATK) (millions)	19,721	21,715
Capacity (in ASK) (millions)	136,724	152,075
Capacity (in AFTK) (millions)	7,416	8,028
RTKs (millions)	14,406	15,552
RPKs (millions)	109,113	120,461
RFTKs (millions)	4,701	4,857
Number of passengers transported (thousands)	73,077	79,094
Cargo transported (million kilograms)	1,416	1,410
Load Factor	73%	71.6%

OPERATIONS BY GEOGRAPHICAL AREA

The Company's revenues by geographical area are analysed based on the following criteria:

- 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 areas based on the origin and destination of each flight area.
- 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 the Company's revenues by geographical area for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, after reclassification of business tax and expected sales in advance of carriage:

	Year ended 31 December		Six months ended 30 June
	2011	2012	2013
	(millions of RMB)		
Domestic	56,014	57,282	27,829
Regional (Hong Kong, Macau and Taiwan)	3,771	3,682	1,929
International	22,618	24,289	11,722
Total	82,403	85,253	41,479

Investors should note that the Company implemented the policy of transformation from business tax to value-added tax in 2012. Therefore the above comparison is not representative in this regard.

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 the Company has generally been allocated adequate routes in the past to accommodate its expansion plans and other changes in its 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, the Company can give no assurance that its route structure will be adequate to satisfy its expansion plans.

The CAAC has established regulatory policies intended to promote controlled growth of the Chinese airline industry. The Company believes 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 its flexibility to respond to changes in market conditions, competition or its cost structure. Moreover, whilst the 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 its business operations.

Because the Company provides services on international routes, the Company is 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 Organisation, an agency of the United Nations established in 1947 to assist in the planning and development of international air transportation. The International Civil Aviation Organisation 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 the 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 the Company, that have a hub located at each of the active air traffic centres 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"). The Air Transportation Arrangement provides for equal opportunity for airlines based in Hong Kong and mainland China. Competition from airlines based in Hong Kong has 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 the Company's Hong Kong routes.

The CAAC and the Economic Development and Labour 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 15 December 2008, mainland China and Taiwan commenced mutual direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under an 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 to 33 airports in various PRC cities in 2010, whilst flight destinations in Taiwan continue to include eight airports in various cities in Taiwan. At the end of 2012, the two sides agreed to increase the total number of flights to 616 per week and to increase the total number of destination airports in mainland China and Taiwan to 64. 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, the Taoyuan and Kaohsiung airports. On 17 June 2013, the two sides agreed to increase the total number of flights to 670 per week and to add three terminals for chartered cargo flights to and from Tianjin, Zhengzhou and Ningbo 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. 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 1 March 2001, domestic airlines were permitted to offer discounts on several major domestic routes.

On 17 March 2004, China's State Council approved the Pricing Reform Plan for the Domestic Civil Aviation Industry, or the Pricing Reform Plan, effective 20 April 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 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 per cent. higher or 45 per cent. 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 the NDRC issued a notice on 13 April 2010, effective on 1 June 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 the NDRC. The Company expects that, as this and other reforms continue, it will have more flexibility in operating its 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 favourable environment for the growth of the Company's 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 co-ordination of the International Air Transport Association, which organises periodic air traffic conferences for the purpose of co-ordinating international airfares. Discounts are permitted on regional and international routes. For the airline industry in China as a whole, the airfare per kilometre is substantially higher for regional and international routes than for domestic routes.

Acquisition of Aircraft and Spare Parts

The Company is permitted to import aircraft, aircraft spare parts and other equipment for its own use from manufacturers through Eastern Aviation Import & Export Co., Ltd. ("EAIEC"), which is 55 per cent. owned by CEA Holding and 45 per cent. owned by the Company. This gives the Company freedom in rationalising its maintenance practices by allowing it to maintain a relatively lower overall inventory level of aircraft parts and equipment than the Company otherwise would have to maintain. The Company is still required to obtain an approval from the NDRC for any import of aircraft. The Company generally pays a commission to EAIEC in connection with these imports.

Domestic Fuel Supply and Pricing

The Civil Aviation Oil Supply Corporation, or the "CAOSC", which is controlled by the CAAC, is currently the dominant civil aviation fuel supply company in China. The Company currently purchases a significant portion of its domestic fuel supply from the China National Aviation Fuel Co., Ltd., or the "CNAF", a subsidiary of CAOSC. The PRC government determines the fuel price at which the CAOSC acquires fuel from domestic suppliers and the CAAC issues a guidance price. The retail price at which the CAOSC resells fuel to airline customers is set within a specified range based on this guidance price.

In 2005, the NDRC, the CAAC and the China Air Transport Association jointly launched the linkage mechanism for aviation fuel prices and transportation prices by airline companies. The fuel surcharge standards for domestic passenger routes were adjusted according to a series of notices regarding the adjustments of passenger fuel surcharges on domestic routes issued by the NDRC and CAAC from 2006 to 2008. In the second half of 2008, international crude oil prices decreased significantly, leading the NDRC and the CAAC to suspend fuel surcharges for domestic passenger routes with effect from 15 January 2009. A Notice Concerning the Relevant Issues on Establishing Linkage Mechanism for Passenger Fuel Surcharges on Domestic Routes and the Price of Domestic Aviation Coal Oil Fuel (the "2009 Notice") by the NDRC and the CAAC, with effect from 14 November 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 24 March 2010, the NDRC and CAAC issued the Notice Regarding the Publication of Passenger Fuel Surcharges Rate on Domestic Routes, which reduced the maximum standard fuel surcharge by 3.1 per cent. for domestic routes. In addition, on 30 March 2011, the NDRC and the CAAC issued another similar notice, which further adjusted the maximum standard fuel surcharge downwards. From 1 August 2011, according to the Announcement on the Linking Mechanism for Fuel Surcharges and Aviation Coal Oil Fuel, issued by the NDRC and CAAC, the rate of domestic route fuel surcharges will be adjusted each month that the change in consolidated purchase costs for domestic aviation coal oil fuel exceeds RMB250 per ton.

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 licences. Each pilot is required to pass the CAAC-administered examinations before obtaining a pilot licence 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 the Company's 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.

In early 2013, the CAAC amended the original Civil Aviation Incidents Standards and published the new Civil Aviation Incidents Standards (MH/T2001-2013), which became effective as at 1 March 2013. The Company has policies to ensure its relevant employees implement the new standards, which will enable it to enhance its daily operations.

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 organisations. 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. The Company believes that it 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 modelled 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. The Company believes that it 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. The Company's revenue for the previous years is shown net of this levy. In 2003, the levy was 5 per cent. of domestic airfares and 2 per cent. of international airfares. The levy was waived by the CAAC from 1 May 2003 to 31 December 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 28 December 2007, the CAAC and the NDRC released the Implementing Scheme for the Civil Aviation Airport Charges Reform Implementation Plan, which was implemented on 1 March 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 guide prices, in which the standard prices are rarely increased, whilst reduced rates can be negotiated between the airport or the service provider and the users. The plan grants the Company the right to negotiate with airports on the airport charges.

Pursuant to one of the 10 measures announced by the CAAC in December 2008 in response to the global economic downturn which began in the second half of 2008, the Ministry of Finance refunded the civil aviation infrastructure levy that it collected for the period from 1 July 2008 to 30 June 2009 to the respective airlines. The refunded levy for China's aviation industry during the said period amounted to approximately RMB4 billion in total. The 10 measures also include measures to enhance safety, reduce taxes, invest in infrastructure and optimise 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 the Company's total outstanding shares. As at 31 December 2012, approximately 30.99 per cent. of the Company's 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 Catalogue of Industries for Guiding Foreign Investment jointly promulgated by the NDRC and MOFCOM on 24 December 2011, Chinese investors should be the controlling shareholders of a PRC air transportation company.

COMPETITION

Domestic

The Company competes against its domestic competitors primarily on the basis of safety, quality of service and frequency of scheduled flights. With the combination of the Company's dominant position in Shanghai, its route network and its continued commitment to safety and service quality, the Company believes that it is well-positioned to compete against its domestic competitors in the growing airline industry in China. However, domestic competition from other Chinese airlines has been increasing recently as the Company's competitors have increased capacity and expanded operations by adding new routes or additional flights to existing routes and acquiring other airlines. In addition, the Company has faced intense competition from entrants to its 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 airline companies would continue for an indefinite time period. However, if the restriction is lifted in the future, the Company expects that competition from other Chinese airlines on its routes will further intensify.

There are currently over 30 Chinese airlines in mainland China, and the Company competes with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. The Guarantor, 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 the domestic airlines competes against other airlines operating the same routes or flying indirect routes to the same destinations. The Company's principal competitors in the domestic market are China Southern and Air China, which also provide transportation services on some of its routes, principally routes originating from the major air transportation hubs in China, such as Shanghai, Guangzhou and Beijing. Some of these routes are among the Company's most heavily travelled routes. Since most of the major domestic airlines operate routes from their respective hubs to Shanghai, the Company also competes against virtually all of the major domestic airlines on these routes. In addition, the Company is facing increasing competition from certain low-cost carriers, such as Spring Airlines, in the domestic market. Spring Airlines competes with the Company, as it operates daily domestic routes to certain destinations such as Harbin, Shenyang, Guangzhou, Xiamen, Sanya, Kunming and Chongqing, which are covered in the Company's domestic routes. However, the Company believes it is well-positioned to compete against domestic low-cost carriers due to its expansive route network, competitive pricing, greater availability of flight services to these destinations and strong brand name.

The Company also faces competition from other domestic carriers in its air cargo business. However, the Company believes its absorption of Shanghai Airlines in early 2010 will strengthen its market positioning within the domestic market, particularly with respect to routes to and from Shanghai. In addition, the Company believes that relevant air cargo assets of Shanghai Airlines, Great Wall Airlines and Shanghai International Freight Airlines Co., Ltd. have strengthened its competitive position in the domestic air cargo sector. The Company has also recently initiated a strategy to accelerate the transition of its role from air cargo transportation enterprise to aviation and logistics services provider. On 26 December 2012, the Guarantor established Shanghai Eastern Airlines Logistic Company ("Eastern Logistics") and transferred China Cargo Airlines to Eastern Logistics,

which the Company believes will facilitate its development of services with respect to courier, logistics solutions and aviation trade and on-site logistics services platforms. In 2013, Eastern Logistics completed its reorganization successfully and its business performance has achieved rapid progress.

Domestic Rail

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 centres than competing airports could enhance the relative competitiveness of the railway service and affect the Company's market share on some of its key routes, in particular its routes of between 500km to 800km. The high-speed railway connecting Beijing and Shanghai commenced operations in July 2011, and has substantially affected the Company's Beijing and Shanghai routes, as well as routes between Shanghai and Jinan, Beijing and Nanjing, Shanghai and Xuzhou, Shanghai and Tianjin and Beijing and Changzhou.

With a PRC national high-speed railway network established and fully functional in 2013, the Company inevitably faces increasing competition and pricing pressures from this railway service. Therefore, the Company has been taking active measures in decreasing the number of short-haul routes that overlap with such high-speed train routes, as well as adjusting certain airfare prices on affected routes, facilitating "air-to-railway" transfers and allocating flight resources to alternative routes or medium-to-long-haul routes that have higher profitability, higher demand and lessened competition. The Company expects to continue exploring cooperation opportunities with domestic railway authorities, whilst maintaining and strengthening its other competitive advantages, which include providing high quality services, increasing its pre-sale product promotions and developing its transfer services.

Regional

The Company's Hong Kong routes are highly competitive. The primary competitors on the Company's Hong Kong routes are Cathay Pacific Airways ("Cathay"), and Hong Kong Dragon Airlines Limited ("Dragonair"). In 2013, the Company operated approximately 16 flight routes between Chinese cities and Hong Kong. Cathay and Dragonair compete with the Company on several of these routes, particularly the Shanghai-Hong Kong route. The Company also faces competition from Spring Airlines on its Shanghai-Hong Kong, Hangzhou-Hong Kong, Nanjing-Hong Kong and Shanghai-Macau routes. 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 the Company's Hong Kong routes, resulting in intensified competition. The Company also faces competition from Dragonair in its 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, the Company's 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 15 December 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, 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. At the end of 2012, the two sides agreed to increase the total number of flights to 616 per week and to increase the total number of destination airports in mainland China and Taiwan to 64. 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. On 17 June 2013, the two sides agreed to increase the total number of flights to 670 per week and to add three terminals for chartered cargo flights to and from Tianjin, Zhengzhou and Ningbo airports. Previously, a substantial number of the Company's passengers travelled on its 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, the Company may experience a significant decline in passenger traffic volumes on its Hong Kong routes and, as such, its revenues derived from operating such routes could be materially and adversely affected. The Company currently operates flights to Taipei from Shanghai, Nanjing, Xi'an, Kunming, Wuhan, Hefei, Nanchang, Ningbo, Taiyuan, Shijiazhuang and Qingdao. Through its absorption of Shanghai Airlines in 2010, the Company has added three additional direct routes to Taipei from Shanghai, Tianjin and Nanjing. In addition, the Company 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, the Company can give no assurance that it 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 its revenues derived from operating its Hong Kong routes.

The Company 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 the Company's Hong Kong routes for passengers travelling between Taiwan and mainland China.

International

The Company competes with Air China, China Southern and many other established foreign carriers on its international routes. Most of its international competitors are very well-known international carriers and are substantially larger than the Company is and have substantially greater financial resources than the Company does. Many of its international competitors also have significantly longer operating histories and greater name recognition than the Company has. Some international passengers, who may perceive these airlines to provide better service than Chinese airlines in general, may prefer to travel on these airlines. In addition, many of the Company's international competitors have more extensive sales networks and utilise more developed reservation systems than the Company's, or engage in promotional activities, such as frequent flyer programmes, that may be more popular than the Company's and effectively enhance their ability to attract international passengers.

The Company also faces significant competition in its international cargo operations. Moreover, China and the United States entered into an air service agreement on 24 July 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 9 July 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 liberalisation of the bilateral air transport market. A trade services agreement was also signed between China and the 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. The Company primarily competes with Air China, All Nippon Airways, Japan Airlines, and Spring Airlines

on its passenger routes to Japan. On its Korean routes, the Company competes with China Southern Airlines, Air China and Asiana Airlines and Korean Air. The Company's principal competitors on its flights to Southeast Asia include Thai Airways International, Singapore Airlines, Malaysia Airlines, Air Asia and Vietnam Airlines. On its passenger flights to the United States, the Company's principal competitors include Delta Air Lines, United Airlines, American Airlines, Air China and Air Canada. On its European routes, the Company's competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways, Lufthansa German Airlines and Alitalia. The Company competes with Air China, China Southern Airlines and Qantas Airways on its Australian routes. The Company competes in the international market on the basis of price, service quality, frequency of scheduled flights and convenient sales arrangements. To improve its competitive position in international markets, the Company has established additional dedicated overseas sales offices, launched its own frequent flyer programme, participated in "Asia Miles", a popular frequent flyer programme in Asia, and entered into code-sharing arrangements with a number of foreign airlines. The Company has also improved its online reservation and payment system. In 2013, the Company implemented code-sharing programmes covering 242 destinations along 340 routes with SkyTeam member airlines.

In addition, in June 2011, the Company joined SkyTeam, an international airlines alliance and frequent flyer mileage programme that includes, among others, international carriers such as Delta, China Southern, Alitalia, Air France and KLM. As a member of the SkyTeam alliance, the Company's Elite members can enjoy 530 lounges world-wide.

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. The Company's 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. The Company has a good safety record and regards the safety of its flights as one of the most important components of its operations.

Maintenance Capability

Through the Company's co-operation with service providers and ventures with other companies, the Company currently performs regular repair and maintenance checks on all of its aircraft, which include D1 checks, C checks and other maintenance services for certain aircraft and other flight equipment. The Company also performs certain maintenance services for other Chinese airlines. The Company's primary aircraft maintenance base is at Hongqiao International Airport in Shanghai. In 2011, the Company commenced use of a newly constructed wide-body aviation hangar at Hongqiao International Airport, which can accommodate the maintenance of two of its wide-body aircraft and one narrow-body aircraft. The Company has additional maintenance bases at Shanghai Pudong International Airport and some of its provincial hubs. The Company's maintenance staff in Shanghai supervise the operation of its regional maintenance facilities. The Company employed approximately 10,620 workers as maintenance and engineering personnel as at 31 January 2014. Some of its aircraft maintenance personnel have participated in the manufacturer training and support programmes sponsored by Airbus and Boeing. In order to enhance its maintenance capabilities and to reduce its maintenance costs, the Company has, 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. The Company's avionics equipment is primarily maintained and repaired at its electronic maintenance equipment centre located in Shanghai.

The Company has 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, the Company has operated a maintenance hangar at Hongqiao International Airport which has the capacity to house two wide-body aircraft. The 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. The Company and Rockwell Collins International Inc. hold 35 per cent. and 65 per cent., respectively, of the equity interests in the joint venture. Moreover, in November 2002, the Company, jointly with Aircraft Engineering Investment Limited, established Shanghai Eastern Aircraft Maintenance Limited, in which the Company holds 60 per cent. of the equity interests, to provide supplemental avionics and other maintenance services to the Company. STA, which was established in 2004 by the Company and Singapore Technologies Aerospace Ltd. under a joint venture agreement dated 10 March 2003, also provides the Company with aircraft maintenance, repair and overhaul services.

On 6 November 2007, the Company 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. The Company and UTC contributed US\$20.15 million and US\$19.36 million respectively, to the registered capital and hold 51 per cent. and 49 per cent., respectively, of the equity interests in the joint venture. Moreover, after its absorption of Shanghai Airlines, the Company took over Shanghai Airlines' 15 per cent. equity interest in Boeing Shanghai Aviation Services Co., Ltd. ("Boeing Shanghai"). As at 31 December 2013, Boeing (China) Investment Co., Ltd., Shanghai Airport (Group) Co., Ltd. and Boeing (Asia) Services Investment Limited hold 35.3 per cent., 25.0 per cent. and 24.7 per cent., respectively, of the remaining equity interest. Boeing Shanghai was founded in 2006 with a registered capital of US\$85 million and operates a maintenance hangar with the capacity to provide aircraft modification and maintenance services for two wide-body aircraft and one narrow-body aircraft and provides aircraft modification and maintenance services. In addition, the Company also holds 50 per cent. of Shanghai Airlines' previous equity interest in Shanghai Hute Aviation Technology Co., Ltd. ("Shanghai Hute"). The remaining equity interest is held by Sichuan Haite High-Tech Co., Ltd. Shanghai Hute was founded in 2003 with a registered capital of RMB30 million and provides maintenance services for aviation equipment. The enhancement of the Company's maintenance capabilities allows the 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 the Company's customers is one of its primary operational objectives. The Company implements uniform safety standards and safety-related training programmes in all operations. The Company's flight safety management division monitors and supervises the Company's flight safety. The Company has had a flight safety committee since the commencement of its business, comprising of members of its senior management, to formulate policies and implement routine safety checks at its Shanghai headquarters and all provincial hubs. The flight safety committee meets monthly to review the Company's overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. The Company has also implemented an employee incentive programme, using a system of monetary rewards and discipline, to encourage compliance with the CAAC safety standards and its safety procedures. The Company periodically evaluates the skills, experience and safety records of its pilots in order to maintain strict control over the quality of its pilot crews. In 2011, the Company was awarded the "Flight Safety Five-star Award" by CAAC for its commitment to aviation and operations safety.

In 2012, the Company continued to strengthen its Safety Management System (“SMS”). The Company issued work implementation plans that provided specific measures to address risks such as lighting strikes, hard aircraft landings and communication systems failures. In addition, the Company established the Nantong Airport training base to provide additional training programmes for its flight crews. Furthermore, the Company formulated the “Assessment and Remuneration Packages of Star-rating flight Crew Members”, which commenced star-rating assessment of all flight crew members in terms of flight safety, flight quality, discipline and provision of services.

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

All of the Company’s jet passenger aircraft pilots participate in the manufacturer training and support programmes sponsored by Airbus and Boeing and are required to undergo recurrent flight simulator training and to participate in a flight theory course periodically. The Company uses flight simulators for A300-600R, A320 and A330/340 and B737 NG aircraft at its own training facility, the training facility located in the CAAC training centre or overseas training facilities.

Cyber-security

With respect to its internal policies on cyber-security and internet safety, the Company has established an information safety management system and issued internal regulations on cyber-security, internal hardware and data safety systems to prevent loss of information due to cyber-security incidents, network outages or hardware incidents. The Company also plans to implement measures relating to office environment information safety management and information system emergency management, information system access control, protection from any malicious software, management of information exchange tools and internal review and audit of information safety risks. Furthermore, the Company has entered into a strategic cooperation plan with the China Information Technology Security Evaluation Centre by which their trained engineers evaluate the Company’s internal data security policies and cyber-security measures. In 2012, the Company established and announced two internal regulations relating to cyber-security, namely, China Eastern Airlines Information Security Management Regulation, and China Eastern Airlines Information System Application and Development Safety Regulation, which the Company believes will strengthen its information safety management systems and overall cyber-security defenses. In 2013, the Company further established information security system integrating the core function of system security classification, information security incident grading, emergency response and security monitoring. The Company also expects to obtain ISO27001 certificate in 2014, which is accredited by ANSI-ASQ National Accreditation Board for information security management system. During the year ended 31 December 2013, the Company did not experience any material cyber-security incidents or related losses.

FUEL SUPPLIES

Fuel costs represented approximately 36.1 per cent. and 35.5 per cent. of the Company’s operating expenses in 2012 and the six months ended 30 June 2013. The Company currently purchases a significant portion of the aviation fuel for its 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 its international routes, the Company purchases a portion of its aviation fuel from foreign fuel suppliers located at the destinations of these routes, generally at international market prices.

In the six months ended 30 June 2013, the Company consumed approximately 2.19 million tonnes of fuel, an increase of 7.99 per cent. from the six months ended 30 June 2012. From the six months ended 30 June 2012 to the six months ended 30 June 2013, the Company's fuel expenses increased by 2.09 per cent.. In 2012, the Company consumed approximately 4.2 million tonnes of fuel, an increase of 7.2 per cent. from 2011. The Company's aviation fuel expenditure reached RMB29,872 million (based on value-added tax), representing an increase of 2.2 per cent. from RMB29,229 million in 2011, as a result of the expansion of the Company's operations and an increase of approximately 2.1 per cent. in the average weighted price of aviation fuel in 2012. The Company implemented the policy of transformation from business tax to value-added tax in 2012. If the Company's aviation fuel expenditure is re-calculated in line with the business tax, aviation fuel costs for 2012 grew by 9.5 per cent. from 2011, the increase in price of jet fuel increased aviation fuel expenditures by approximately RMB671 million, and the increase in aviation fuel consumption resulted in an increase in aviation fuel expenditure of approximately RMB2,111 million. Jet fuel prices were volatile in 2011 and into 2012, with heightened political tensions between certain Middle Eastern countries and the United States, as well as continued political instability and turmoil in certain Middle Eastern countries. Whilst there was a slight increase during the first quarter of 2012, fuel prices began decreasing in the second quarter and reached the lowest point in July 2012 since January 2012. However, from August to October, fuel prices gradually returned to the same price level as in the first quarter of 2012. After climbing to a peak in the first quarter of 2013, fuel prices gradually fell and experienced slight fluctuation ever since. The Company can give no assurance 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, the Company may be unable to fully or effectively pass on to its customers any increased fuel costs it may encounter in the future. However, the Company intends to continue focusing on enhancing its jet fuel procurement policies and developing additional internal cost-control measures, which include streamlining the number of aircraft models in its fleet and optimizing route structures, which the Company believes will enable it to control its fuel costs.

GROUND FACILITIES AND SERVICES

The centre of the Company's operations is Shanghai, one of China's principal air transportation hubs. The Company's Shanghai operations are based at Hongqiao International Airport and Pudong International Airport. The Company currently also operates from various other airports in China, including Capital International Airport and Nanyuan Airport in Beijing, Shuangliu Airport in Chengdu, Xiaoshan Airport in Hangzhou, 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, Changshui Airport in Kunming, Zhongchuan Airport in Lanzhou and Xianyang Airport in Xi'an. The Company owns hangars, aircraft parking and other airport service facilities at these airports, and also provides ground services in these locations. The Company leases from CEA Holding certain buildings at Hongqiao International Airport where its principal executive offices are located.

The Company has its own ground services and other operational services, such as aircraft cleaning and refuelling and the handling of passengers and cargo for its operations at Hongqiao International Airport and Pudong International Airport. The Company also provides 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 the Company's Shanghai-originated flights are provided primarily by Shanghai Eastern Air Catering Limited Liability Company, a joint venture company affiliated with CEA Holding. The Company generally contracts with local catering companies for flights originating from other airports.

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

MARKETING AND SALES

Passenger Operations

The Company's marketing strategy with respect to passenger operations is primarily aimed at increasing its market share for all categories of air travellers. With respect to its Hong Kong and international routes, the Company is permitted to market its services on the basis of price. The Company has limited flexibility in setting its airfares for domestic routes and adjusting its domestic airfares in response to market demand. As part of its overall marketing strategy, the Company emphasises its commitment to safety and service quality. The Company believes that emphasis on safety is a critical component of its ability to compete successfully.

The Company has also adopted customised strategies to market its services to particular travellers. The Company seeks to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travellers, the Company focuses on the frequency of flights between major business centres, convenient transit services and an extensive sales network. The Company launched its initial frequent flyer programme in 1998 and joined the "Asia Miles" frequent flyer programme in April 2001 to attract and retain travellers. In August 2003, the Company upgraded and rebranded its frequent flyer programme 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, restaurants and other service providers that are the Company's strategic partners. As a result of the Company's continual efforts to develop the "Eastern Miles" programme, the number of members of the frequent flyer programme reached over 20 million in 2013. The special services hotline "95530" call centre was established and came into operation in 2004. In addition, in 2012, the Company further expanded its marketing efforts to certain travellers by offering four frequent-flyer products that target different levels of demand and consumption, which include the "Eastern Premium", which provides concierge-style services to business travellers; "Eastern Privileges", which provide door-to-door services for potential high-net worth travellers; "Eastern Far Reach", which provides services to special-needs travellers; and "Eastern Shuttle", which provides travellers bound for Yunnan with itinerary design, transit and other value-added services.

In light of the expansion of the national HSR network, the Company has cooperated with the Shanghai Railway Bureau to launch "Air-Rail Pass Transportation" products in 13 cities in the Yangtze River Delta, including Nanjing, Hangzhou and Suzhou in 2012. This cooperation has resulted in the development of an air-rail two-way transportation product combining the Company's domestic and international flights and Shanghai Railway Bureau's placement of high-speed railway products at the Shanghai Hongqiao International Airport and the Shanghai Pudong International Airport, which has helped the Company broaden its customer resources. The Company has also actively promoted various marketing products and developed value-added services and products by cooperating across different industries, including the "Air-Bus Service" with Shanghai Pudong International Airport that transports

passengers between Shanghai Pudong International Airport and five cities in the Yangtze River Delta, including Suzhou and Wuxi. In order to maintain and enhance passenger load factor for flights during low seasons, the Company has launched travel products such as “Journey to the Three Regions in Southern China” (Yunnan, Hainan and Jiangnan) and “Journey to the West” (trip to greater western China via Xi’an). The Company has also jointly promoted overseas tourism services with overseas institutions such as Tourism Australia and Tourism Queensland and various transit marketing products.

In terms of its customer resources, the Company has actively explored and expanded its customer base of high-end business travellers to accelerate the development of group clients. In 2013, the Company added over 400 group clients, raising the total number of the Company’s group clients to over 4,900. In addition, the Company has fully promoted the expansion of Eastern Miles membership. In order to attract more members and to provide members with better experience in terms of diversity, comprehensiveness and flexibility, the Company has strengthened its cooperation with retail stores by increasing the number of co-operative stores to 81, covering various industries such as financial services, hotel, car rental and health services. The Company’s Eastern Miles members may accumulate and redeem points in these retail stores and the total number of items redeemable with points awarded under this programme has increased to over 880 items. As at the end of 2013, the Company had over 2 million new Eastern Miles members, with a total of 20 million members.

The Company’s advertising, marketing and other promotional activities include the use of radio, television and print advertisements. The Company plans to continue to use advertising and promotional campaigns to increase sales on new routes and competitive routes.

Ticket Booking Systems

In 2002 and again in 2012, the Company upgraded its online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. In 2012, the Company also expedited the construction of nine overseas websites in a variety of languages. Currently, the Company’s global website covers North America, Australia, Europe and Asia Pacific. The Company continues to encourage its customers to book and purchase tickets via the Internet by initiating various promotional campaigns and upgrading and expanding the services offered by its online sales system. In 2012, the Company introduced “China Eastern Mobile E”, a smartphone application that provides mobile flight booking, flight status and online checking services, which the Company believes will provide its customers with additional convenient, value-added services. In 2013, we upgraded China Eastern Mobile E, developed another application, M-web, and optimized online payment functions.

The Company also maintains an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of the Company’s airline tickets are sold by domestic and international sales agents. The Company’s tickets are sold throughout China through over 4,400 sales agencies and travel agencies pursuant to contractual relationships with it. Currently, the Company’s direct domestic ticket sales are handled primarily through employees based at its 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 the Company’s telephone reservation and confirmation services. In addition to its domestic sales agents located in various cities in mainland China, Hong Kong, Macau and Taiwan, the Company maintains overseas sales or representative offices worldwide, including: (i) North American locations such as Honolulu, Los Angeles, New York, San Francisco and Vancouver; (ii) European and Middle Eastern locations such as Frankfurt, Hamburg, London, Moscow, Paris, Rome, Madrid, Brussels and Munich; (iii) Asia-Pacific locations such as Seoul, Tokyo, Osaka, Nagoya, Fukuoka, Hiroshima, Sapporo, Niigata, Fukushima, Okinawa, Shizuoka, Kanazawa, Toyama, Nagasaki, Kagoshima, Okayama, Matsuyama,

Singapore, Bangkok, Phuket, New Delhi, Kolkata, Kuala Lumpur, Ho Chi Minh, Bali, Dubai, Dhaka, Phnom Penh, Siem Reap, Vientiane, Yangon, Mandalay, Kathmandu and Maldives; and (iv) Australian locations such as Melbourne and Sydney. The Company maintained approximately 46 overseas sales or representative offices as at 31 December 2013.

As at 1 June 2008, the Company 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 approximately 84 per cent. of scheduled international air traffic. As a result of the mandate, the Company now issues electronic itineraries and receipts as well as electronic tickets to its passengers. The Company believes the transition to 100 per cent. 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 the Company’s direct passenger ticket sales are recorded on its computer systems. Most Chinese airlines, including the Company, are required to use the passenger reservation service system provided by the CAAC’s computer information management centre, which is linked with the computer systems of major Chinese commercial airlines. The Company has 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 the Company’s international flights.

SkyTeam Alliance

The Company officially joined SkyTeam, an international airlines alliance and frequent flyer mileage programme that includes international carriers such as, among others, Delta, China Southern, Alitalia, Air France and KLM, on 21 June 2011. As at 31 December 2013, the Company has entered into frequent flyer agreements with 18 SkyTeam member airlines and implemented code-sharing programmes covering 242 destinations along 340 routes with SkyTeam member airlines, as well as 150 destinations along 170 routes with non-SkyTeam member airlines, which has further broadened the coverage of the Company’s route network.

By connecting to the route networks of other SkyTeam member airlines, the Company is able to offer its passengers seamless transit to over 1,000 destinations in around 187 countries under a single plane ticket with direct luggage services. Passengers may also enjoy the comfort of more than 530 VIP airport lounges of SkyTeam around the world. The entry of the Company as well as Shanghai Airlines into SkyTeam became effective on 21 June 2011. The Company believes this will be another benefit for its passengers, as they will be afforded additional flight options and frequent flyer mileage benefits through the Company’s SkyTeam alliance partners. In addition, the Company expects to benefit from possible codeshare, cooperative and bundled flight options, reduced costs and increased alliance-related marketing and promotion overseas.

Cargo Operations

The Company maintains a network of cargo sales agents domestically and internationally. The Company and its cooperative partners in its 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, the Company established its northern China, southern China, southeastern China and overseas sales management centres to improve coordination among its sales offices. In addition, the Company works closely with two major international freight forwarders, DHL Global Forwarding Co., Ltd. (“DHL Global”) and E.I. Freight Forwarding Co., Ltd. (“EI”), to operate international cargo lines that originate from Shanghai. The Company has entered into global rewards agreements with DHL Global and EI, granting them certain incentive rewards for increases in freight volume.

In 2012, the Company established a global freight transportation command centre, which enables it to fully control and manage its operations at over 58 freight terminals, as well as implemented certain international quality benchmarks in accordance with Cargo2000, a quality control management standard for international aviation freight transportation operations, which the Company believes will enable it to strengthen the cargo transportation services that the Company is able to provide.

The Company's subsidiary, China Cargo Airlines, formally signed a letter of intent on 6 June 2012 to join SkyTeam Cargo, currently the world's only airline cargo alliance, which will enable it to further expand its cargo network coverage, strengthen its transit capacity, provide better and more efficient ground services, whilst lowering operational costs. China Cargo Airlines received formal SkyTeam Cargo membership in late 2013.

TOURISM AND TRAVEL SERVICES, LOGISTICS SERVICES AND ANCILLARY ACTIVITIES

In addition to its airline operations, the Company also generates 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, the Company acquired 10 per cent. of SEDC's then equity interest and 35 per cent. 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 reservations, travel agency and other related services.

With its subsidiary, Shanghai Airlines, the Company derives 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 organisations including the IATA. SAT has won several awards as a travel services provider, as well as awards and honours for its professional staff and vacation package offerings.

The Company also derives 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, the Company is the principal provider of these services at Hongqiao International Airport and Pudong International Airport. The Company provides these services to foreign carriers generally pursuant to one-year renewable contracts. In the year ended 31 December 2012 and the six months ended 30 June 2013, the Company generated net revenues of approximately RMB2,119 million and RMB1,096 million from its airport ground services and cargo handling services, respectively.

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

In 2012, the Company leveraged on its internal resources to establish a business platform that provides diversified logistics and management solutions and services under Eastern Logistics, which includes the integrated operations of China Cargo Airlines. Eastern Logistics is expected to engage in shipping agency, ground cargo handling, logistics, road freight transport (general freight), warehousing and property management. The Company believes Eastern Logistics will enable it to develop new revenue sources and diversify its ancillary operations, whilst responding to customer demand for one-stop cargo transportation and logistics services.

PATENTS AND TRADEMARKS

The Company owns or has obtained licences to use various domestic and foreign patents, patent applications and trademarks related to its business. Whilst patents, patent applications and trademarks are important to its competitive position, no single one is material to the Company as a whole.

The Company owns various trademarks related to its business. The most important trademark is the service trademark of China Eastern Airlines Corporation Limited. All of the Company's 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 travelling on domestic flights has been increased to RMB400,000 per passenger since March 2006, for which the Company also purchases insurance. As at 31 July 2006, the Convention for the Unification of Certain Rules for International Carriage by Air of 1999, or the 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. The Company believes that it maintains 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 that the Company is subject to. The Company also maintains 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 "Risk Factors — Risks Relating to the Company — The Company's insurance coverage and costs have increased substantially, and could have an adverse effect on its operations" for more information on the Company's insurance coverage.

PROPERTY, PLANT AND EQUIPMENT

Fleet

As at 31 December 2013, the Company operated a fleet of 465 aircraft, including 451 passenger aircraft, most with a seating capacity of over 100 seats and 14 freighters. In 2013, the Company completed: (i) the purchase and finance-lease of a total of 36 aircraft, including six A321 aircraft, three A320 aircraft, eight A330-200 aircraft, three A319 aircraft, five B737-700 aircraft and 11 B737-800 aircraft; (ii) the operating-lease of 22 aircraft, including 12 A320 aircraft and ten B737-800 aircraft; and (iii) the retirement of nine aircraft, including disposal of two A300-600R; and surrender of the lease of three MD11 aircraft, two B757-300 aircraft, one A320 aircraft and one B737-700 aircraft. On 27 April 2012, the Company entered into a purchase agreement with Boeing Company in Shanghai, China regarding the purchase of 20 Boeing B777-300ER aircraft. On the same date, the Company entered into a disposal agreement with Boeing Company regarding the disposal of five Airbus A340-600 aircraft. On 23 November 2012, the Company entered into a purchase agreement with Airbus SAS in Shanghai, China regarding the purchase of 60 Airbus A320 series aircraft. On the same date, the Company entered into a disposal agreement with Airbus SAS regarding the disposal of eight CRJ aircraft and ten EMB aircraft. The Company plans to continue to expand its scale and to adjust and optimise its route network, thereby increasing its competitiveness and ability to create more attractive products and services to meet the needs of the market.

Existing Fleet

As at 31 December 2013, the Company had a fleet of 465 aircraft, including 451 passenger jets mostly with a seating capacity of over 100 seats and 14 freighters. The following tables set forth the details of its fleet as at 31 December 2013:

	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	9.99
A330-300	15	8	7	300	6.73
A330-200	21	18	3	242	2.53
A300-600R	7	7	—	274	19.03
B767	7	6	1	263	13.15
Narrow-body:					
A321	33	33	—	177	4.11
A320	145	101	44	158	6.41
A319	23	15	8	122	6.41
Boeing 737-800	94	28	66	170	4.33
Boeing 737-700	59	42	17	134	7.38
Boeing 757-200	8	5	3	180	12.26
Boeing 737-300	16	16	—	138	17.55
EMB 145LR	10	10	—	50	7.26
CRJ-200	8	8	—	50	12.26
Total Passenger Aircraft:	451	302	149	—	—

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

	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⁾
Cargo Aircraft					
MD-11F	0	—	0	—	0
A300-600R	1	1	—	—	23.49
B747	5	2	3	—	12.91
B757-200F	2	—	2	—	24.40
B777F	6	—	6	—	3.24
Total Cargo Aircraft	<u>14</u>	<u>3</u>	<u>11</u>	<u>—</u>	<u>—</u>
Total Fleet	<u>465</u>	<u>305</u>	<u>160</u>	<u>—</u>	<u>—</u>

The Company's daily average aircraft utilisation rate was 9.8 hours in 2013, remaining the same as in 2012. The table below sets forth the daily average utilisation rates of its jet passenger aircraft for each of the two years ended 31 December 2011, 2012 and 2013:

	2011	2012	2013
	(in hours)		
Wide-body			
A340-600	12.0	12.3	11.8
A330-300	9.4	9.2	9.9
A330-200	14.0	13.7	14.3
A300-600	8.1	7.5	6.8
B767-300	10.2	10.8	9.6
Narrow-body			
A321	9.5	9.1	8.9
A320	10.3	10.3	9.9
A319	9.2	8.5	9.2
Boeing 737-800	10.1	10.3	10.2
Boeing 737-700	9.9	9.9	9.8
Boeing 737-300	9.4	9.0	8.6
EMB 145	9.7	9.7	8.1
CRJ-200	6.7	5.9	5.0
Boeing 757-200	8.3	7.9	7.9
Total Passenger Aircraft Average	9.8	9.9	9.8

Most of the Company's jet passenger aircraft are manufactured by either Airbus or Boeing. The Company's Airbus A340-600 aircraft are primarily used for its 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. The Company's Airbus A330 aircraft are primarily used for its Beijing-Shanghai and Singapore, Australia, India, Japan and Korea routes. The Company's Airbus A320 and Boeing B737 aircraft are suitable for middle and short distance flights and are primarily used for its domestic routes. The Company's Airbus A320 aircraft are also used primarily on its Hong Kong routes. The Company's EMB145LR and CRJ-200 aircraft are mainly used on its domestic short-distance routes.

The Company's MD-11F, A300-600R, B777F and B747-400ER aircraft are used for its cargo operations and carry cargo to the United States, Europe and Japan.

Future Fleet Development

The Company's aircraft acquisition programme focuses on aircraft that will modernise and rationalise its fleet to better meet the anticipated requirements of its route structure, taking into account aircraft size and fuel efficiency. The Company's aircraft acquisition programme, however, is subject to the approval of the CAAC and the NDRC. The following table summarises its currently anticipated introduction and retirement of aircraft from 2014 to 2018 as at 31 December 2013:

Model	2014E		2015E		2016E		2017E		2018E	
	Introduction	Retirement	Introduction	Retirement	Introduction	Retirement	Introduction	Retirement	Introduction	Retirement
A320 Series . . .	34	13	26	9	25	6	15	—	—	—
A330 Series . . .	8	—	7	—	—	—	—	—	—	—
A340 Series . . .	—	1	—	4	—	—	—	—	—	—
B737NG	27	6	37	10	15	10	—	17	—	5
B757	—	1	—	1	—	—	—	—	—	—
B777-300ER . . .	4	—	5	—	5	—	3	—	3	—
Regional Aircraft . . .	—	—	—	—	—	—	—	—	—	—
A300-600F	—	—	—	—	—	—	—	—	—	—
B747	—	1	—	1	—	—	—	1	—	—
B757F	—	—	—	—	—	—	—	—	—	—
MD11	—	—	—	—	—	—	—	—	—	—
Total	73	22	75	25	45	16	18	18	3	5

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, the Company's financial condition and results of operations, its financing requirements, the terms of any financing arrangements, such as finance leases, and other capital requirements. The Company believes that its aircraft acquisition plan will help the Company accomplish its expansion plans whilst maintaining an efficient fleet and ensuring alternative sources of supply.

Fleet Financing Arrangements

The Company generally acquires aircraft through either long-term capital leases or operating leases. Under the terms of most capital leases, the Company generally is obliged 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, the Company 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 the Company 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-cancellable or cancellable only on a payment of a major penalty by the lessee. As a result, the Company bears substantially all of the economic risks and rewards of ownership of the aircraft held under capital leases. Operating leases, however, are customarily cancellable 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 subsidiaries and branches) had operations on 39 parcels of land, occupying a total area of approximately 1.8 million square meters, as at 31 December 2013. In addition, as at 31 December 2013, the Company (including subsidiaries and branches) owned approximately 1,618 buildings with a total gross floor area of approximately 639,802.37 square meters. The Company and its 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.

TRANSACTIONS WITH RELATED PARTIES

The Company has, from time to time, entered into transactions with its related parties including its affiliated companies. See Note 47 to the audited consolidated financial statements of the Company for the year ended 31 December 2012 and Note 24 to the unaudited consolidated financial statements of the Company for the six months ended 30 June 2013 which are included elsewhere in this Offering Circular, beginning on page F-2 and F-123 in this Offering Circular, respectively.

The Company believes that each of its related party transactions was entered into in the ordinary course of business and on arm's length basis in the Company's interest and the interest of its shareholders.

DIRECTORS AND MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

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

Name	Age	Shares Owned ⁽¹⁾	Position
Liu Shaoyong	55	0	Chairman of the Board of Directors
Ma Xulun	50	0	Director, Vice Chairman and President
Xu Zhao	45	0	Director
Gu Jiadan	58	0	Director
Li Yangmin	51	3,960 A Shares	Director and Vice President
Tang Bing	47	0	Director and Vice President
Sandy Ke-Yaw Liu	66	0	Independent Non-executive Director
Ji Weidong	57	0	Independent Non-executive Director
Shao Ruiqing	57	0	Independent Non-executive Director
Li Ruoshan	65	0	Independent Non-executive Director
Ma Weihua	66	0	Independent Non-executive Director
Yu Faming	60	0	Chairman of the Supervisory Committee
Xi Sheng	51	0	Supervisor
Ba Shengji	56	0	Supervisor
Feng Jinxiong	52	0	Supervisor
Yan Taisheng	60	0	Supervisor
Shu Mingjiang	46	0	Vice President
Wu Yongliang	51	3,696 A Shares	Vice President and Chief Financial Officer
Tian Liuwen	55	0	Vice President
Feng Liang	50	0	Vice President
Wang Jian	41	0	Board Secretary and Joint Company Secretary
Ngai Wai Fung	52	0	Joint Company Secretary

⁽¹⁾ As at 31 December 2013.

As at the date of this Offering Circular, brief biographical details in respect of each of the Directors, supervisors and senior management members of the Guarantor are as follows:

DIRECTORS

Mr. Liu Shaoyong is currently the Chairman of the Guarantor and president and deputy party secretary of CEA Holding. Mr. Liu joined the civil aviation industry in 1978 and was appointed as vice president of China General Aviation Corporation, deputy director of Shanxi Provincial Civil Aviation Administration of the PRC, general manager of the Shanxi Branch of the Guarantor, and director general of the Flight Standard Department of CAAC. Mr. Liu served as President of the Guarantor from December 2000 to October 2002, vice minister of the CAAC from October 2002 to August 2004,

president of China Southern Air Holding Company from August 2004 to December 2008, chairman of China Southern Airlines Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from November 2004 to December 2008. In December 2008, Mr. Liu was appointed as president and deputy party secretary of CEA Holding, and has been the Chairman of the Guarantor since 3 February 2009. Mr. Liu is also currently a board member of the International Air Transport Association, a board member of the Association for Relations Across the Taiwan Straits and the vice chairman of the first session of the supervisory committee of China's Listed Companies Association. Mr. Liu graduated from the China Civil Aviation Flight College and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. Mr. Liu holds the title of commanding pilot.

Mr. Ma Xulun is currently the Vice Chairman, President and Deputy Party Secretary of the Guarantor, and party secretary of CEA Holding. Mr. Ma was previously vice president of China Commodities Storing and Transportation Corporation, deputy director general of the Finance Department of CAAC and vice president of Air China International Corporation Limited. In 2002, after the restructuring of civil aviation industry he was appointed as vice president of general affairs of Air China International Corporation Limited. Later on, Mr. Ma served as president and deputy party secretary of Air China International Corporation Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from September 2004 to January 2007. Mr. Ma became a party member of China National Aviation Holding Company from December 2004 to December 2008, and deputy general manager of China National Aviation Holding Company from January 2007 to December 2008. In December 2008, Mr. Ma was appointed as President and Deputy Party Secretary of the Guarantor and deputy party secretary of CEA Holding. Since February 2009, Mr. Ma has been a director of the Guarantor. Mr. Ma served as party secretary of CEA Holding and Vice Chairman of the Guarantor with effect from November 2011. Mr. Ma is also currently the Deputy Director-General of the Association of Shanghai Listed Companies. Mr. Ma graduated from Shanxi University of Finance and Economics and Huazhong University of Science and Technology. Mr. Ma holds a master's degree and is a certified accountant.

Mr. Xu Zhao is currently a director of the Guarantor, and the chief accountant of CEA Holding. Mr. Xu served as engineer and accountant of Dongfeng Motor Group Company Limited, manager of the finance department of Shanghai Yanhua High Technology Limited Company, and chief financial officer of Shaanxi Heavy Duty Automobile Co., Limited. Since November 2006, Mr. Xu has served as the chief accountant of CEA Holding. He was a Supervisor of the Guarantor from June 2007 to November 2011. Mr. Xu was appointed as an independent non-executive director of Yingde Gases Group Company Limited (a company listed on the Hong Kong Stock Exchange) with effect from September 2009. He has served as a director of the Guarantor since June 2012. Mr. Xu graduated from Chongqing University, majoring in moulding, and The Chinese University of Hong Kong, majoring in accounting, and holds a master's degree. Mr. Xu is qualified as an engineer and an accountant, and is a certified public accountant in the PRC.

Mr. Gu Jiadan is currently a director of the Guarantor, and vice president and a party member of CEA Holding. Mr. Gu was the assistant to president, and the general manager and the party secretary of the commerce department of Shanghai Airlines Co., Ltd. (上海航空股份有限公司). From May 2005 to August 2009, he was a party member and vice president of Shanghai Airlines Co., Ltd. From August 2009 to January 2010, he was the acting president of Shanghai Airlines Co., Ltd. From January 2010 to July 2011, he was vice president and a party member of CEA Holding and the party secretary of Shanghai Airlines. Since July 2011, Mr. Gu has served as the vice president and a party member of CEA Holding. He was appointed a director of the Guarantor with effect from June 2012. Mr. Gu Jiadan holds a master's degree and is a senior economist.

Mr. Li Yangmin is currently a director, Party Secretary and Vice President of the Guarantor, and a party member of CEA Holding. Mr. Li joined the civil aviation industry in 1985. He was previously deputy general manager of the aircraft maintenance base and the manager of air route department (航線部) of Northwest Company (西北航空公司), general manager of the aircraft maintenance base of

China Eastern Air Northwest Company and vice president of China Eastern Air Northwest Company. Since October 2005, he has also been a Vice President of the Guarantor. He served as Safety Director of the Guarantor from July 2010 to December 2012. He has been a party member of CEA Holding since May 2011. He was appointed the Party Secretary and a director of the Guarantor with effect from June 2011. He was the chairman of China Cargo Airlines, a subsidiary of the Guarantor, from February 2012 to January 2013. Mr. Li graduated from Northwestern Polytechnical University with a master's degree. He is a qualified senior engineer.

Mr. Tang Bing is currently a director and Vice President of the Guarantor, and party member of CEA Holding. Mr. Tang joined the civil aviation industry in 1993. He served as vice executive president (general manager in China Office) of 珠海摩天宇發動機維修有限公司 (MTU Maintenance Zhuhai Co., Ltd.), office director of China Southern Airlines Holding Company and president of 重慶航空有限公司 (Chongqing Airlines Company Limited). From December 2007 to May 2009, he served as chief engineer and general manager of the Aircraft Engineering Department of China Southern Airlines Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange). From May 2009 to December 2009, he was appointed as president of the Beijing Branch of the Guarantor and was the president of Shanghai Airlines from January 2010 to December 2011. He was appointed chairman of Shanghai Airlines in January 2012. He has served as a Vice President of the Guarantor since February 2010, and was appointed a party member of CEA Holding in May 2011 and a director of the Guarantor in June 2012. Mr. Tang graduated from Nanjing University of Aeronautics and Astronautics majoring in electrical technology. He obtained a Master of Business Administration (MBA) degree from the Administration Institute of Sun Yat-sen University and an EMBA degree from the School of Economics and Management of Tsinghua University.

Mr. Sandy Ke-Yaw Liu is currently an independent non-executive director of the Guarantor. Mr. Sandy Ke-Yaw Liu joined the civil aviation industry in Taiwan in 1969. He served in 台灣中華航空公司 (China Airlines) in various capacities, including airport manager in Honolulu Airport, marketing director for the Americas, general manager for Hawaii District, regional director for Europe, director of corporate planning and director of marketing planning in its Corporate Office in Taiwan. With China Airlines, he also served as vice president for marketing and sales and vice president for commerce, and president in the Corporate Office. In addition, Mr. Liu served as a director of 台灣華信航空 (Taiwan Mandarin Airlines), 台灣遠東航空 (Taiwan Far Eastern Air Transport), 台灣華膳空廚 (Taiwan China Pacific Catering Service) and 台灣桃園航勤服務公司 (Taiwan Taoyuan International Airport Service Company), as well as chairman of 台灣華儲物流公司 (Taiwan Air Cargo Terminal). He relocated to Hong Kong where he acted as chief operating officer for the Asia Region in Expeditors International of Washington, Inc., a global logistics company. Mr. Liu graduated from Taiwan Shih Hsin University and attended advanced study programmes at Stanford University in 1990 and 1993.

Mr. Ji Weidong is currently an independent non-executive director of the Guarantor. Mr. Ji was an associate professor and professor at the School of Law of Kobe University, Japan. Since 2008, he has been the dean and chair professor of Koguan Law School of Shanghai Jiao Tong University. In addition, he is currently an honorary professor at Kobe University, Japan. Mr. Ji graduated from the Department of Law of Peking University. Mr. Ji completed his Master and Doctoral Degrees in Law at the Graduate School of Kyoto University, Japan and obtained his doctoral degree from Kyoto University, Japan. From September 1991 to July 1992, he was a visiting scholar at Stanford Law School.

Mr. Shao Ruiqing is currently an independent non-executive director of the Guarantor. Mr. Shao was deputy dean and dean of the School of Economics and Management of Shanghai Maritime University. He served as deputy dean at Shanghai Lixin University of Commerce since March 2004, and was also a professor in accounting and mentor to doctoral students. From June 2007 to August 2011, Mr. Shao served as an external supervisor of China Merchants Bank Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange). Mr. Shao served as an independent nonexecutive director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) from June 2008 to May 2012. Mr. Shao was awarded the special

governmental allowance by the State Council of the PRC in 1995. He is currently a consultative committee member of the Ministry of Transport of the PRC, as an expert in finance and accounting. Mr. Shao graduated from Shanghai Maritime University, Shanghai University of Finance and Economics and Tongji University with a Bachelor Degree in Economics, and Master and Doctoral Degrees in Management. Mr. Shao has spent two and a half years as senior visiting scholar in the U.K. and Australia.

Mr. Li Ruoshan is currently an independent non-executive Director of the Company. Mr. Li was a deputy dean of the School of Economics and a deputy director of the Accounting Department of the School of Economics of Xiamen University; and a deputy dean of the School of Management, director of the Accounting Department, and director of the Finance Department of Fudan University. Mr. Li is currently a professor and PhD supervisor of the Accounting Department of the School of Management of Fudan University. He is also the deputy director of the Members' Rights Protection Commission of the Chinese Institute of Certified Public Accountants, the vice president of the Shanghai Accounting Society and Shanghai Auditing Society, a member of the Consultant Professional Committee for Listed Companies of the Shanghai Stock Exchange, a consultant professional of the Committee for Accounting Standards of the Ministry of Finance and an independent director of three listed companies, namely Industrial Bank Co., Ltd., China Pacific Insurance (Group) Co., Ltd. and Guangbo Group Co. Ltd. respectively. In 2011, Mr. Li was awarded the "The Best 10 Independent Directors in China" by the Shanghai Stock Exchange. Mr. Li graduated from Xiamen University, majoring in Accounting and obtained a Doctoral Degree in Auditing. He further studied abroad in Belgium and the Massachusetts Institute of Technology in the United States.

Mr. Ma Weihua is currently an independent non-executive Director of the Company. Mr. Ma is currently the chairman of Wing Lung Bank Limited in Hong Kong, a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference, the vice chairman of China Chamber of International Commerce, the executive deputy chairman of China Enterprise Directors Association, a member of the Standing Council of China Society for Finance and Banking, a director of Shenzhen Soft Science Development Foundation. He is an independent non-executive director of China Petroleum & Chemical Corporation, Winox Holdings Limited, and China Resources Land Limited. Mr. Ma was an executive director, president and chief executive officer of China Merchants Bank Co., Ltd., the chairman of CIGNA & CMC Life Insurance Co., Ltd., and the chairman of China Merchants Fund Management Co., Ltd.. Mr. Ma obtained a Doctorate Degree in Economics and is an adjunct professor at several higher educational institutions including Peking University and Tsinghua University.

SUPERVISORY COMMITTEE

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

Mr. Yu Faming is currently the Chairman of the Supervisory Committee of the Guarantor, and a party member and the head of party disciplinary inspection group of CEA Holding. Mr. Yu served as deputy head of the Survey and Research Department of the Policy Research Office of the Ministry of Labour and Human Resources of the PRC, head of the Integration Division of the Department of Policy and Regulation of the Ministry of Labour of the PRC, deputy head of the Labour Science Research Institute of the Ministry of Labour of the PRC, deputy head and head of the Labour Science Research Institute of the Ministry of Labour Protection of the PRC and head of the Training and Employment Department of the Ministry of Labour Protection of the PRC. From June 2008 to May 2011, he served as head of the Employment Department of the Ministry of Human Resources and

Social Security of the PRC. Since May 2011, he has been a party member and the head of the party disciplinary inspection group of CEA Holding. Since June 2011, he has served as the Chairman of the Supervisory Committee of the Guarantor. Mr. Yu graduated from Shandong University majoring in philosophy. He holds the title of associate research fellow.

Mr. Xi Sheng is currently a supervisor of the Guarantor and chief auditor of CEA Holding. Mr. Xi served as the deputy head of the foreign affairs department II of the foreign funds utilisation and application audit department and the head of the liaison and reception office of the foreign affairs department of the National Audit Office of the PRC and the deputy head of the PRC Audit Institute (中國審計事務所). He was also the head of the fixed assets investment audit department of the National Audit Office of the PRC, and the party secretary and a special commissioner of the Harbin office of the National Audit Office of the PRC. He served as the head of the personnel and education department of the National Audit Office of the PRC from January 2007 to September 2009. He was the head of the audit department of CEA Holding from September 2009 to November 2012. Mr. Xi has served as the chief auditor of CEA Holding since September 2009. Mr. Xi is also the council member of China Institute of Internal Audit and a member of International Institute of Internal Auditors. Mr. Xi graduated from Jiangxi University of Finance and Economics (江西財經大學) with undergraduate education background. He is a senior auditor.

Mr. Ba Shengji is currently a supervisor of the Company and secretary of the disciplinary committee of CEA holding. Mr. Ba joined the civil aviation industry in 1978. He served as the section manager and deputy head of the finance department of the Company. He served as the chief officer of the auditing office of the Company from March 1997 to October 1997, chief officer of the auditing office of CEA Holding from October 1997 to July 2000, head of the audit department of CEA Holding from July 2000 to January 2003, chief officer of disciplinary committee office, head of supervision department and audit department of CEA Holding from January 2003 to May 2003, deputy head of party disciplinary inspection group and chief of disciplinary committee office, head of supervision department and audit department of CEA Holding from May 2003 to November 2006, secretary of the disciplinary committee of the Company from November 2006 to November 2009 and the secretary of the disciplinary committee and chairman of the labour union of the Company from November 2009 to November 2011. He served as the deputy secretary of the party committee and secretary of the disciplinary committee of the Company from November 2011 to August 2013. He has served as secretary of the disciplinary committee of CEA holding since August 2013. Besides, Mr. Ba also serves as the chairman of China Eastern Airlines Jiangsu Co., Ltd. and vice chairman of Eastern Aviation Advertising Service Co., Ltd.. Mr. Ba graduated from Shanghai TV University.

Mr. Feng Jinxiong is currently a supervisor and general manager of the Audit Department of the Guarantor and a deputy general manager of the Audit Department of CEA Holding. Mr. Feng joined the civil aviation industry in 1982, and served as Deputy Head and Head of the Planning Department of the Guarantor, head of the Finance Department and deputy chief accountant of CEA Holding, Manager of the Human Resources Department of the Guarantor, vice president of 東航金茂控股有限責任公司 (CES Finance Holding Co. Ltd), and Deputy General Manager of the Shanghai Security Department of the Guarantor. He also served as president of China Eastern Airlines Wuhan Co., Ltd. from 2007 to 2009. Since February 2009, he has been General Manager of the Audit Department of the Guarantor. He has been a supervisor of the Guarantor since March 2009. Mr. Feng graduated from the Civil Aviation University of China and the Graduate School of the Chinese Academy of Social Sciences, holding a master's degree.

Mr. Yan Taisheng is currently a supervisor and the Vice Chairman of the Labour Union of the Guarantor. Mr. Yan joined the civil aviation industry in 1973, and served as Chief of the Board Secretariat of the General Office of the Guarantor, general manager of 上海民航東大實業公司 (Shanghai Civil Aviation Dong Da Industry Company) and Deputy Head and Head of the General Office of the Labour Union of the Guarantor. He has been the Vice Chairman of the Labour Union of the Guarantor since 2005. He has served as a supervisor of the Guarantor since March 2009. Mr. Yan graduated from East China Normal University.

SENIOR MANAGEMENT

Mr. Shu Mingjiang is currently a Vice President of the Guarantor. Mr. Shu joined the civil aviation industry in 1989. He served as vice president of general affairs of 上海東方飛行培訓有限公司 (Shanghai Eastern Flight Training Co., Ltd.), a subsidiary of the Guarantor, Deputy Head of the Safety Monitoring Division, Vice Manager and subsequently Manager of the Safety Monitoring Department of the Guarantor, Deputy General Manager of the Shanghai Flight Division of the Guarantor and Vice President of the Yunnan Branch of the Guarantor. From November 2006 to December 2009, he was the Chief Pilot and General Manager of the Operating Control Division of the Guarantor. From December 2009 to November 2011, Mr. Shu was President of the Beijing Branch of the Guarantor. He has been a Vice President of the Guarantor since December 2011. Mr. Shu graduated from the Flight College of Civil Aviation Flight University of China, majoring in aviation flying, and obtained a Master in Flight Safety Management jointly held by Civil Aviation University of China, ENAC, France and ENSICA, France, and an Executive Master of Business Administration (EMBA) degree from School of Management of Fudan University.

Mr. Wu Yongliang is currently a Vice President and Chief Financial Officer of the Guarantor. Mr. Wu joined the civil aviation industry in 1984 and served as Deputy Head and subsequently Head of the Finance Department of the Guarantor, Head of Planning and Finance Department of the Guarantor and head of the Finance Department of CEA Holding. From 2001 to March 2009, he served as deputy chief accountant and head of the Finance Department of CEA Holding. From April 2009 onwards, he has served as Chief Financial Officer of the Guarantor. He has been a Vice President of the Guarantor since December 2011. Mr. Wu graduated from the Faculty of Economic Management of Civil Aviation University of China, majoring in planning and finance. He also graduated from Fudan University, majoring in business administration (MBA). Mr. Wu was awarded the postgraduate qualification and is a certified accountant.

Mr. Tian Liuwen is currently a Vice President of the Guarantor and the president of Shanghai Airlines. Mr. Tian served as manager of the Beijing Sales Department under the Marketing and Sales Division of China General Aviation Corporation. He was also the Head of the General Manager Office and Chairman of the Labour Union and Deputy General Manager of the Shanxi Branch of the Guarantor. From June 2002 to January 2008, he was the Vice President and subsequently President of the Hebei Branch of the Guarantor. From April 2005 to January 2008, he was President of the Beijing Base of the Guarantor. He has served as general manager of China Eastern Airlines Jiangsu Co., Ltd, a subsidiary of the Guarantor, since January 2008. Since December 2011, he has been a Vice President of the Guarantor and the president of Shanghai Airlines. He obtained an EMBA degree from Nanjing University and is qualified as a senior economist.

Mr. Feng Liang is currently the Chief Engineer and the Chief Security Officer of the Guarantor. Mr. Feng joined the civil aviation industry in 1986 and worked in aircraft maintenance engineering department and aircraft maintenance base routes department of the Guarantor. From 1999 to 2006, he used to serve as the head of the aircraft maintenance base engineering technology department, chief engineer of the base and general manager of the base. He also served as the general manager of China Eastern Air Engineering & Technique after it was established. He was appointed as the Chief Engineer of the Guarantor in August 2010 and was appointed as the Chief Security Officer of the Guarantor in December 2012. He was appointed as the Vice President of the Guarantor in August 2013. Mr. Feng was graduated from Civil Aviation University of China, majored in aircraft electrical equipment maintenance and obtained an MBA degree from Shanghai Jiaotong University.

Mr. Wang Jian is currently the Board Secretary, Joint Company Secretary and the Head of the Board secretariat of the Guarantor. Mr. Wang joined the Guarantor in 1995 and served as Deputy Head of the Guarantor's office and Deputy General Manager of the Shanghai Business Office of the Guarantor. From September 2006 to May 2009, he was the deputy general manager in the Shanghai Base of China Southern Airlines Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange). Since May 2009, he has served as the Head of the Board

secretariat of the Guarantor. He was a representative of the Guarantor's Securities affairs from May 2009 to April 2012. He was appointed as the Board Secretary and Joint Company Secretary of the Guarantor in April 2012. Mr. Wang graduated from Shanghai Jiao Tong University and has an MBA postgraduate degree from East China University of Science and Technology and an EMBA degree from Tsinghua University as well as a qualification certificate for board secretaries of listed companies issued by the Shanghai Stock Exchange.

Mr. Ngai Wai Fung is currently a Joint Company Secretary of the Guarantor. Mr. Ngai is a fellow and vice president of the Hong Kong Institute of Chartered Secretaries, and a fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Ngai is currently a director and chief executive officer of SW Corporate Services Group Limited. Mr. Ngai became an adjunct professor of the Faculty of Law of Hong Kong Shue Yan University in September 2012. He was appointed as a non-official member of the Working Group on Professional Services of the Economic Development Commission by the chief executive of the Hong Kong Special Administrative Region and acts a committee member of Qualification and Examination Board by the Hong Kong Institute of Certified Public Accountant in January 2013. He previously served as joint company secretary in several companies and has rich experience in being a company secretary, as well as in enterprise management, legal matters, finance and corporate governance. He is also a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants in the United Kingdom. In April 2012, Mr. Ngai was appointed the Joint Company Secretary of the Guarantor. Mr. Ngai has a Doctorate in Finance from the Shanghai University of Finance and Economics, a Master in Corporate Finance from the Hong Kong Polytechnic University, an MBA from Andrews University in the United States and a Bachelor's degree (Honours) in Law from the University of Wolverhampton in the United Kingdom.

THE GUARANTEE

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds. Its obligations in that respect will be contained in a deed of guarantee dated on or around 21 February 2014.

Any guarantee of foreign indebtedness by a PRC-incorporated entity is subject to approval by the SAFE. On 29 June 2011, the Guarantor obtained approval from the Shanghai Bureau of SAFE to guarantee indebtedness of the Issuer incurred outside the PRC for a principal amount of up to CNY8 billion and all interest and relevant expenses incurred in relation to the bond indebtedness of the Issuer for a guarantee period of up to 5 years. The approval was granted by the Shanghai Bureau of SAFE pursuant to the Foreign Security Measures and SAFE Notice. The Guarantor will rely on the SAFE approval to discharge its obligations under the Guarantee.

The Guarantor understands from its discussion with SAFE that:

- (i) the Guarantee will only be valid, binding and enforceable against the Guarantor under the PRC law upon execution and completion of the approval and registration procedures with the Shanghai Bureau of SAFE; and
- (ii) the Guarantee will cover all sums due under the Bonds (including any Renminbi principal, interest and relevant expenses) so long as the principal amount of the Bonds together with any offshore bond indebtedness of the Issuer do not exceed CNY8 billion on the Issue Date.

Pursuant to the SAFE Notice, all proceeds raised by the Issuer under the Bonds outside the PRC (and guaranteed by the Guarantor) may not be remitted into the PRC for any use directly or indirectly through any means, including without limitation, any loan, equity investment or securities investment. In addition, the Guarantor is responsible for ensuring that the proceeds obtained by the Issuer will be used in the operating activities of the Issuer outside the PRC.

The Guarantor is required by the Foreign Security Measures and the SAFE Notice to register the Guarantee with the Shanghai Bureau of SAFE as soon as possible and in any event before the Registration Deadline (being 30 business days after the issue date of the Bonds). The Guarantee may not be enforceable until the registration of the Guarantee is completed in accordance with the provisions of the Foreign Security Measures. The Guarantor intends to register the Guarantee within the above timeframe, and in the opinion of the Guarantor's PRC legal advisers, there is no legal impediment to complete such registration. If the Guarantor fails to fulfil any of the Registration Conditions on or before the Registration Deadline, each of the holders will have the right to request the Issuer to redeem all but not some of such holder's Bonds and will need to rely on the Issuer to source sufficient Renminbi from other sources to fully discharge its obligations under the Bonds. See "Risk Factors — Risks relating to the Guarantee and the Bonds — The Guarantee is not enforceable before registration with SAFE and there may be uncertainty relating to the coverage and enforceability of the Guarantee". Prior to the performance or discharge of its obligations under the Guarantee, the Guarantor is also required to complete a verification process with the Shanghai Bureau of SAFE for each remittance under the Guarantee.

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC, which are Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions, including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) (the “Renminbi Settlement Circular”), pursuant to which (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts was expanded to cover 20 provinces, and (iii) the restriction on designated offshore jurisdictions was lifted. Accordingly, all enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle imports and exports of goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only be effected by approved pilot enterprises in designated pilot districts in the PRC. On 24 August 2011, the PRC government issued the Notice on Expanding the Regions of Cross-border Trade Renminbi Settlement. This added 11 provinces and autonomous regions were added to the list of regions which allow cross-border trade Renminbi settlement, as a result of which, the pilot programme has been expanded to the entire country.

As a recent regulation, the Renminbi Settlement Circular is subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Renminbi Settlement Circular and impose conditions for settlement of current account items in Renminbi.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

On 25 February 2011, MOFCOM promulgated the Circular on Issues concerning Foreign Investment Management (商務部關於外商投資管理工作有關問題的通知) (the “MOFCOM Circular”). The MOFCOM Circular states that, if a foreign investor intends to make investments in the PRC (whether by way of establishing a new enterprise, increasing the registered capital of an existing enterprise, acquiring an onshore enterprise or providing loan facilities) with RMB that it has generated from cross-border trade settlement or that it has lawfully obtained outside the PRC, MOFCOM’s prior written consent is required. On 3 December 2013, the MOFCOM promulgated the New MOFCOM Announcement. The New MOFCOM Announcement eased rules on cross-border RMB direct investments. Pursuant to the New MOFCOM Announcement, a direct investment using offshore RMB will be approved by MOFCOM and its local counterparts in accordance with the existing PRC laws and regulations regarding foreign investment, and MOFCOM and its local counterparts will specify in its approvals that the direct investment is in RMB. Moreover, if a foreign investor intends to change the investment currency from a certain foreign currency to RMB, no additional approval for the revision to its joint venture contract or articles of association is required (although it is still subject

to the applicable registration, account opening and currency conversion procedures required by the competent authorities). In any event, a cross-border RMB direct investment is subject to the relevant laws, regulations and requirements on foreign investment and shall comply with the national industry policies in terms of foreign investment and the relevant rules on security review of merger and acquisitions and anti-monopoly review. In addition, the proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrusted loans except for strategic investment in listed companies. Whilst the MOFCOM Circular and the new MOFCOM Announcement expressly sets out the requirement of obtaining MOFCOM's prior written consent for remittance of Renminbi into the PRC by a foreign investor, the foreign investor may also be required to obtain approvals from other PRC regulatory authorities, such as the PBOC and SAFE, for transactions categorised as capital account items. In April 2011, SAFE issued the Notice on Relevant Issues regarding Streamlining the Business Operation of Cross-border RMB Capital Account Items, which clarifies that the borrowing by an onshore entity (including a financial institution) of RMB loans from an offshore creditor shall in principle follow the current regulations on borrowing foreign debts, and the provision by an onshore entity (including a financial institution) of external guarantees in RMB shall in principle follow the current regulations on the provision of external guarantees in foreign currencies. On 13 October 2011, PBOC promulgated the Measures for Administration of RMB Settlement Business in Relation to Foreign Direct Investment (《外商直接投資人民幣結算業務管理辦法》). On 24 June 2012, PBOC promulgated the Notice of the People's Bank of China on Clarifying the Detailed Operating Rules for RMB Settlement of Foreign Direct Investment (《人民銀行關於明確外商直接投資人民幣結算業務操作細則的通知》). Under these regulations and rules, foreign investors may settle RMB with banks directly, including opening RMB accounts and settling initial investment expenses and paying acquisition consideration in RMB.

As new regulations, such notices will be subject to interpretation and application by the relevant PRC authorities. There is no assurance that approval of such remittances, borrowing or provision of external guarantee in RMB will continue to be granted or will not be revoked in the future. Furthermore, since the remittance of RMB by way of investments or loans are now categorised as capital account items, such remittances will need to be made subject to the specific requirements or restrictions set out in the relevant SAFE rules.

PRINCIPAL SHAREHOLDER

The following table sets forth certain information regarding ownership of the Guarantor's capital stock by all persons who were known to the Guarantor to be the beneficial owners of five per cent. or more of its capital stock as at 30 June 2013:

Title of Class	Identity of Person or Group	Amount Owned	Percent of Class	Percent of Total Shares
Domestic A Shares . . .	CEA Holding ⁽¹⁾	5,530,240,000	65.21%	43.63%
H Shares	CEA Holding ⁽²⁾	2,626,240,000	62.63%	20.72%
H Shares	HKSCC Nominees Limited ⁽³⁾⁽⁴⁾	3,479,454,299	82.98%	27.45%

⁽¹⁾ Among such A shares, 5,072,922,927 A shares (representing approximately 59.81% of the Company's then total issued A shares) were held by CEA Holding in the capacity of beneficial owner; and 457,317,073 A shares (representing approximately 5.39% of the Company's then total issued A shares) were held by CES Finance in the capacity of beneficial owner, which in turn was 100% held by CEA Holding.

⁽²⁾ Such H shares were held by CES Global Holdings (Hong Kong) limited ("CES Global"), in the capacity of beneficial owner, which in turn was 100 per cent. held by CEA Holding.

⁽³⁾ As custodian of the Depositary for American Depositary Shares representing H Shares. Among such H shares, 1,927,375,000 H shares (representing approximately 45.96% of the Company's then total issued H shares) were held by CES Global in the capacity of beneficial owner, which in turn was 100% held by CEA Holding. These shares does not include the 698,865,000 H Shares that CES Global acquired on 30 June 2013.

⁽⁴⁾ Among such H shares, JPMorgan Chase & Co. had, through controlled corporations, an interest in an aggregate of 285,528,752 H shares (representing approximately 6.81% of the Company's then total issued H shares). Among such H shares, JPMorgan Chase & Co. also had, through controlled corporations, a short position in an aggregate of 3,345,064 H shares (representing approximately 0.08% of the Company's then total issued H shares). Such short position of 3,345,064 H shares were held by J.P. Morgan Whitefriars (UK) in the capacity of beneficial owner, which in turn was 99.99% held by J.P. Morgan Whitefriars Inc., which in turn was 100% held by J.P. Morgan Overseas Capital Corporation, which in turn was 100% held by J.P. Morgan International Finance Limited, which in turn was 100% held by Bank One International Holdings Corporation, which in turn was 100% held by J.P. Morgan International Inc., which in turn was 100% held by JPMorgan Chase Bank, N.A., which in turn was 100% held by JPMorgan Chase & Co.

As at 30 June 2013, CEA Holding held 64.35 per cent. (43.64 per cent. directly held and another 20.72 per cent. indirectly through its wholly-owned subsidiary, CES Global) of the Guarantor's issued and outstanding capital stock, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. The Guarantor is not aware of any arrangement which may at a subsequent date result in a change of control of the Guarantor.

As at 30 June 2013, there were 4,193,190,000 H Shares issued and outstanding. As at 30 June 2013 and 24 January 2014, there were, respectively, 41 and 42 registered holders of American depositary receipts evidencing 1,241,774 and 1,449,174 ADSs, respectively. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

The Guarantor is currently a majority-owned subsidiary of CEA Holding. CEA Holding itself is a wholly state-owned enterprise under the administrative control of the SASAC. CEA Holding's shareholding in the Guarantor is in the form of ordinary domestic shares, through which it, under the supervision of the SASAC, enjoys shareholder's rights and benefits on behalf of the PRC government.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest in respect of the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”) as it is currently applied by the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (a) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or
- (c) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person (other than a company) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to profits tax.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

Estate Duty

No Hong Kong estate duty is payable in respect of the Bonds.

PRC

The following summary accurately describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this “PRC taxation” section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose actual management organs are within the territory of China shall be PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the actual management organ of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside the PRC. As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, holders of the Bonds will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Bonds or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or with incomes that have no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent. on its income sourced inside the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Bonds for each non-PRC Bondholder. However, despite the potential withholding of PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Bonds.

According to the double taxation arrangement between mainland China and Hong Kong and relevant PRC tax regulations, residents of Hong Kong will not be subject to PRC tax on any capital gains from a sale or exchange of the Bonds. For other investors of the Bonds, according to the New Enterprise Income Tax Law and related implementation regulations, it is unclear whether the capital gains of non-resident enterprises derived from a sale or exchange of the Bonds will be subject to PRC income tax. If such capital gains are determined as income sourced in China by PRC tax authority, those non-resident enterprise holders, other than Hong Kong residents, may be subject to enterprise income tax at a rate of 10 per cent. of the gross proceeds (unless other tax preferential treatments are provided by any special tax arrangements).

Proposed EU Directive on the Taxation of Savings Income

Under the Directive on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated 6 March 2014 (the “Subscription Agreement”) pursuant to which, and subject to certain conditions contained in the Subscription Agreement, the Issuer agreed to sell to the Joint Lead Managers, and the Joint Lead Managers severally and not jointly agreed to subscribe for, the aggregate principal amount of the Bonds indicated in the following table.

	Principal amount of Bonds
	<u>(CNY)</u>
Joint Lead Managers	
Agricultural Bank of China Limited Hong Kong Branch	500,000,000
DBS Bank Ltd.	500,000,000
Deutsche Bank AG, Hong Kong Branch	500,000,000
The Hongkong and Shanghai Banking Corporation Limited	500,000,000
Standard Chartered Bank (Hong Kong) Limited	<u>500,000,000</u>
Total	<u><u>2,500,000,000</u></u>

The Subscription Agreement provides that the Issuer and the Guarantor will indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

General

The Bonds are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of any trading market for the Bonds.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

In connection with the offering of the Bonds, each Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection

with the offering. Accordingly, references herein to the Bonds being offered should be read as including any offering of the Bonds to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

United States

The Bonds and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States unless pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States (by a dealer that is not participating in the offering) may violate the registration requirements of the Securities Act.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Note:

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Bonds may not be circulated or distributed, nor may any Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

1. to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
2. where no consideration is or will be given for the transfer;
3. where the transfer is by operation of law; or
4. as specified in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

People's Republic of China

Each Joint Lead Manager has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Winding Up and Miscellaneous Provisions) (Cap. 32) of Hong Kong (the "SFO") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

Taiwan

Each Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, at any time, directly or indirectly, any Bonds acquired by it as part of the offering in Taiwan or to, or for the account or benefit of, any resident of Taiwan.

Macau

Each Joint Lead Manager has represented and agreed that the Bonds may not be promoted, distributed, sold or delivered in the Macau Special Administrative Region of the People's Republic of China ("Macau"), or any document relating to the Bonds be distributed or circulated in Macau, except under the terms of and in compliance with the Macau Financial System Act and any other laws in Macau that may apply to the offer and sale of the Bonds in Macau. The Bonds are not registered or otherwise authorised for public offer under the Financial System Act of Macau, thus may not be offered or sold in Macau, unless such offer is made by Macau licensed entities according to the Macau Financial System Act and upon their communication to the Macau Monetary Authority, in observation of the guidelines and recommendations issued by the Macau local regulatory authority from time to time.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

GENERAL INFORMATION

- 1. Clearing Systems:** The Bonds will be lodged and cleared through the CMU. For persons seeking to hold a beneficial interest in the Bonds through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with the CMU operator. The CMU instrument number and the Common Code for the Bonds are DBANFB14009 and 104483305, respectively.
- 2. Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the board of directors of the Issuer on 20 February 2014 and shareholder resolutions of the Issuer on 20 February 2014. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee. The giving of the Guarantee was authorised by resolutions of the Board of Directors and a general meeting of the shareholders of the Guarantor on 30 May 2011 and 29 June 2011, respectively.
- 3. No Material Adverse Change:** There has been no material adverse change, or any development likely to involve an adverse change, in the financial or trading position or to the condition (financial or otherwise), prospects, results of operations, capitalisation, profitability, business, properties, general affairs or management of the Issuer, the Company or the Group since 30 June 2013.
- 4. Litigation:** Save as disclosed in the Offering Circular, neither the Issuer nor the Company nor any member of the Group is involved in any litigation or arbitration proceedings that the Issuer or the Company believes are material in the context of the Bonds nor is the Issuer or the Company aware that any such proceedings are pending or threatened.
- 5. Reliance on Certificates:** Pursuant to the Terms and Conditions of the Bonds and the Trust Deed, the Trustee may rely without liability to Bondholders on a report, confirmation, certificate or opinion or any advice of any accountants, lawyers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.
- 6. Available Documents:** Copies of the Guarantor's annual reports for the years ended 31 December 2011 and 2012 prepared in accordance with IFRS, the Deed of Guarantee, the Trust Deed and the Agency Agreement relating to the Bonds and the Memorandum and Articles of Association of the Issuer and the Guarantor will be available for inspection from the Issue Date at the Issuer's registered office at 22/F., Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong and at the specified office of the Trustee during normal business hours, so long as any of the Bonds is outstanding. The Guarantor prepares and publishes an annual report every year and an interim report semi-annually. Copies of the Guarantor's annual report and interim report in respect of the latest year and period can be obtained from its corporate website.
- 7. Audited and Unaudited Financial Statements:** The Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2011 and 2012 prepared in accordance with IFRS, which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers, Certified Public Accountants, as stated in its report appearing herein.

The Guarantor's unaudited consolidated financial statements as at and for the six months ended 30 June 2012 and 2013 are derived from the Guarantor's published unaudited consolidated financial statements for the six months ended 30 June 2012 and 2013, which have been prepared and presented in accordance with IFRS.

8. **Listing:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to professional investors only. It is expected that dealing in and listing of the Bonds on the Hong Kong Stock Exchange will commence on 14 March 2014.

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Notes:

⁽¹⁾ The audited consolidated financial statements of the Guarantor set out herein have been reproduced from the Guarantor's annual report for the year ended 31 December 2012 and page references are references to pages set forth in such annual report.

⁽²⁾ The unaudited consolidated financial statements of the Guarantor set out herein have been reproduced from the Guarantor's interim report for the six months ended 30 June 2013 and page reference are references to pages set forth in such interim report.

INDEPENDENT AUDITOR'S REPORT 獨立核數師報告

TO THE SHAREHOLDERS OF CHINA EASTERN AIRLINES CORPORATION LIMITED

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 90 to 208, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

致中國東方航空股份有限公司全體股東：

(於中華人民共和國註冊成立的有限公司)

本核數師(以下簡稱「我們」)已審計列載於第90至208頁中國東方航空股份有限公司(以下簡稱「貴公司」)及其附屬公司(以下簡稱「貴集團」)的合併財務報表。此合併財務報表包括於二零一二年十二月三十一日的合併及公司之資產負債表與截至該日止年度的合併綜合收益表、合併權益變動表和合併現金流量表，以及主要會計政策概要及其他附註解釋資料。

董事就財務報表須承擔的責任

貴公司董事須負責根據國際財務報告準則及按照香港《公司條例》的披露規定編製合併財務報表，以令合併財務報表作出真實而公平的反映，及落實其認為與編製合併財務報表所必要的內部控制，以使該等財務報表不存在由於欺詐或錯誤而導致的重大錯誤陳述。

核數師的責任

我們的責任是根據我們的審計對該等合併財務報表作出意見。我們已根據國際審計準則進行審計。這些準則要求我們遵守道德規範，並規劃及執行審計，以合理確定此等合併財務報表是否不存在任何重大錯誤陳述。

審計涉及執程序以獲取有關合併財務報表所載金額及披露資料的審計憑證。所選定的程序取決於核數師的判斷，包括評估由於欺詐或錯誤而導致合併財務報表存在重大錯誤陳述的風險。在評估該等風險時，核數師考慮與該公司編製合併財務報表以作出真實而公平的反映相關的內部控制，以設計適當的審計程序，但目的並非為對公司內部控制的有效性發表意見。審計亦包括評價董事所採用會計政策的合適性及所作出的會計估計的合理性，以及評價合併財務報表的整體列報方式。

我們相信，我們所獲得的審計憑證能充足和適當地為我們的審計意見提供基礎。

INDEPENDENT AUDITOR'S REPORT 獨立核數師報告

OPINION

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

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2013

意見

我們認為，該等合併財務報表已根據國際財務報告準則真實而公平地反映貴公司及貴集團於二零一二年十二月三十一日的財務狀況，及貴集團截至該日止年度的利潤及現金流量，並已按照香港《公司條例》的披露規定妥為編製。

其他事項

本報告(包括意見)乃為股東而編製並僅向整體股東報告，除此之外本報告別無其他目的。我們不會就本報告的內容向任何其他人士負上或承擔任何責任。

羅兵咸永道會計師事務所
執業會計師

香港，二零一三年三月二十六日

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

合併綜合收益表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

		Note	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
		附註		
Revenues	收入	5	85,253,317	82,403,130
Other operating income	其他營業收入	6	1,719,626	1,061,451
Operating expenses	營業支出			
Aircraft fuel	飛機燃料		(29,871,506)	(29,229,011)
Gain on fair value movements of derivatives financial instruments	衍生工具公允價值變動收益	8	24,831	86,851
Take-off and landing charges	飛機起降費		(9,065,649)	(8,350,181)
Depreciation and amortisation	折舊及攤銷		(7,556,910)	(6,965,570)
Wages, salaries and benefits	工資、薪金及福利	9	(10,059,043)	(8,664,854)
Aircraft maintenance	飛機維修費		(4,432,741)	(4,405,900)
Impairment reversals/(charges)	資產減值轉回/(損失)	10	13,467	(638,316)
Food and beverages	航空餐食供應		(2,031,425)	(2,022,367)
Aircraft operating lease rentals	飛機經營性租賃租金		(4,438,169)	(4,128,420)
Other operating lease rentals	其他經營性租賃租金		(609,111)	(491,901)
Selling and marketing expenses	銷售及市場費用		(3,727,437)	(3,739,682)
Civil aviation infrastructure levies	民航基礎設施建設基金		(1,414,457)	(1,321,373)
Ground services and other charges	地面服務及其他費用		(594,057)	(567,552)
Office, administrative and other expenses	辦公、管理及其他費用		(8,982,628)	(8,853,751)
Total operating expenses	營業支出總額		(82,744,835)	(79,292,027)
Operating profit	經營利潤	11	4,228,108	4,172,554
Share of results of associates	攤佔聯營公司業績	23	103,209	75,435
Share of results of jointly controlled entities	攤佔合營公司業績	24	29,960	31,437
Finance income	財務收入	12	348,601	2,024,002
Finance costs	財務支出	13	(1,697,474)	(1,462,727)
Profit before income tax	稅前利潤		3,012,404	4,840,701
Income tax	稅項	14	(204,801)	(264,229)
Profit for the year	年度利潤		2,807,603	4,576,472
Other comprehensive (loss)/income for the year	年度其他綜合(虧損)/收益			
Cash flow hedges, net of tax	現金流量套期，扣除稅項	40	(9,211)	(132,446)
Fair value movements of available-for-sale investments	可供出售金融資產之公允價值變動		(389)	486
Fair value movements of available-for-sale investments held by an associate	攤佔聯營公司所持可供出售金融資產之公允價值變動	23	2,188	(2,701)
Total comprehensive income for the year	年度總綜合收益		2,800,191	4,441,811

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

合併綜合收益表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

		Note	2012	2011
		附註	二零一二年 RMB'000 人民幣千元	二零一一年 RMB'000 人民幣千元
Profit attributable to:	年度淨利潤歸屬於：			
Equity shareholders of the Company	本公司權益持有者		2,953,645	4,575,732
Non-controlling interests	非控制性權益		(146,042)	740
			2,807,603	4,576,472
Total comprehensive income attributable to:	年度總綜合收益歸屬於：			
Equity shareholders of the Company	本公司權益持有者		2,946,271	4,441,071
Non-controlling interests	非控制性權益		(146,080)	740
			2,800,191	4,441,811
Earnings per share attributable to the equity shareholders of the Company during the year	年度本公司權益持有者應佔每股收益			
Basic and diluted (RMB)	基本及攤薄(人民幣)	17	0.26	0.41

The notes on page 99 to 208 are an integral part of these financial statements. 第99頁至第208頁的附註為財務報表的整體部份。

		Note	2012	2011
		附註	二零一二年 RMB'000 人民幣千元	二零一一年 RMB'000 人民幣千元
Dividends	股利	15	-	-

CONSOLIDATED BALANCE SHEET

合併資產負債表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
As at 31 December 2012 於二零一二年十二月三十一日

	Note	2012	2011
	附註	二零一二年	二零一一年
		RMB'000	RMB'000
		人民幣千元	人民幣千元
Non-current assets			
非流動資產			
Intangible assets	18	11,449,099	11,353,590
Property, plant and equipment	19	82,518,761	73,757,795
Lease prepayments	20	1,781,846	1,471,272
Advanced payments on acquisition of aircraft	21	11,894,891	10,968,344
Investments in associates	23	833,472	837,589
Investments in jointly controlled entities	24	418,159	423,256
Available-for-sale financial assets		234,690	240,380
Other long-term assets	25	1,958,256	1,929,834
Deferred tax assets	37	54,561	44,418
Derivative assets	40	–	4,365
		111,143,735	101,030,843
Current assets			
流動資產			
Flight equipment spare parts	26	2,087,978	1,555,544
Trade receivables	27	2,962,181	2,504,026
Prepayments and other receivables	28	3,368,648	2,410,895
Derivative assets	40	18,074	–
Restricted bank deposits and short-term bank deposits	29	1,726,251	2,894,287
Cash and cash equivalents	30	2,511,696	3,860,973
Assets held for sale	44	–	482,313
		12,674,828	13,708,038
Current liabilities			
流動負債			
Sales in advance of carriage		3,094,427	3,197,649
Trade payables and notes payable	31	3,075,325	2,692,624
Other payables and accrued expenses	32	16,256,225	16,267,287
Current portion of obligations under finance leases	33	2,605,269	2,459,259
Current portion of borrowings	34	22,639,955	18,171,130
Income tax payable		181,788	172,319
Current portion of provision for return condition checks for aircraft under operating leases	35	734,205	375,409
Derivative liabilities	40	35,813	51,063
		48,623,007	43,386,740
Net current liabilities		(35,948,179)	(29,678,702)
Total assets less current liabilities		75,195,556	71,352,141
總資產減流動負債		75,195,556	71,352,141

CONSOLIDATED BALANCE SHEET

合併資產負債表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
As at 31 December 2012 於二零一二年十二月三十一日

			2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
	Note 附註			
Non-current liabilities		非流動負債		
Obligations under finance leases	33	融資租賃負債	19,252,709	17,801,563
Borrowings	34	借款	23,096,163	23,603,463
Provision for return condition checks for aircraft under operating leases	35	經營租賃飛機 退租檢修準備	3,064,557	2,923,717
Other long-term liabilities	36	其他長期負債	1,635,537	2,047,099
Deferred tax liabilities	37	遞延稅項負債	29,326	29,326
Post-retirement benefit obligations	38(b)	退休後福利準備	3,259,529	2,859,945
Derivative liabilities	40	衍生負債	304,338	281,921
			50,642,159	49,547,034
Net assets		淨資產	24,553,397	21,805,107
Equity		權益		
Capital and reserves attributable to the equity shareholders of the Company		歸屬於本公司權益持有者 股本及儲備		
Share capital	42	股本	11,276,539	11,276,539
Reserves	43	儲備	11,649,259	8,849,353
			22,925,798	20,125,892
Non-controlling interests		非控制性權益	1,627,599	1,679,215
Total equity		總權益	24,553,397	21,805,107

The notes on pages 99 to 208 are an integral part of these financial statements.

第99頁至208頁的附註為財務報表的整體部份。

The financial statements were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

本財務報表已由本公司董事會於二零一三年三月二十六日批准刊發，並代表董事會簽署。

Liu Shaoyong
劉紹勇
Director
董事

Ma Xulun
馬須倫
Director
董事

COMPANY'S BALANCE SHEET

公司資產負債表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
As at 31 December 2012 於二零一二年十二月三十一日

		Note	2012	2011
		附註	二零一二年	二零一一年
			RMB'000	RMB'000
			人民幣千元	人民幣千元
Non-current assets	非流動資產			
Intangible assets	無形資產	18	11,431,806	11,343,374
Property, plant and equipment	物業、機器及設備	19	56,015,173	50,246,293
Lease prepayments	預付租賃款	20	781,146	497,301
Advanced payments on acquisition of aircraft	飛機預付款	21	10,733,899	10,195,340
Investments in subsidiaries	投資於附屬公司	22	10,455,900	7,104,106
Investments in associates	投資於聯營公司	23	578,836	578,836
Investments in jointly controlled entities	投資於合營公司	24	323,238	323,238
Available-for-sale financial assets	可供出售金融資產		216,256	221,557
Other long-term assets	其他長期資產	25	1,077,036	980,434
Derivative assets	衍生資產	40	–	4,365
			91,613,290	81,494,844
Current assets	流動資產			
Flight equipment spare parts	飛機設備零件	26	1,794,447	1,270,586
Trade receivables	應收賬款	27	3,601,021	2,462,623
Prepayments and other receivables	預付款及其他應收款	28	6,908,992	3,647,648
Derivative assets	衍生資產	40	18,074	–
Restricted bank deposits and short-term bank deposits	限制性銀行存款和短期銀行存款	29	109,543	360,168
Cash and cash equivalents	現金及現金等價物	30	617,422	852,012
Assets held for sale	持有待售資產	44	–	482,313
			13,049,499	9,075,350
Current liabilities	流動負債			
Sales in advance of carriage	預售票款		2,808,175	2,817,980
Trade payables and notes payable	應付賬款及應付票據	31	7,558,342	3,480,109
Other payables and accrued expenses	其他應付款及預提費用	32	11,087,271	10,661,352
Current portion of obligations under finance leases	融資租賃負債的流動部分	33	1,978,018	2,010,988
Current portion of borrowings	借款的流動部分	34	20,335,797	14,830,480
Income tax payable	應付稅項		1,528	25
Current portion of provision for return condition checks for aircraft under operating leases	經營租賃飛機退租檢修準備的流動部分	34	88,081	174,151
Derivative liabilities	衍生負債	40	35,813	51,063
			43,893,025	34,026,148
Net current liabilities	淨流動負債		(30,843,526)	(24,950,798)
Total assets less current liabilities	總資產減流動負債		60,769,764	56,544,046

COMPANY'S BALANCE SHEET

公司資產負債表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
As at 31 December 2012 於二零一二年十二月三十一日

		Note	2012	2011
		附註	二零一二年 RMB'000 人民幣千元	二零一一年 RMB'000 人民幣千元
Non-current liabilities	非流動負債			
Obligations under finance leases	融資租賃負債	33	15,498,192	14,123,184
Borrowings	借款	34	15,087,334	15,184,868
Provision for return condition checks for aircraft under operating leases	經營租賃飛機及發動機 退租檢修準備	35	1,674,553	1,546,944
Other long-term liabilities	其他長期負債	36	962,719	1,331,811
Post-retirement benefit obligations	退休後福利準備	38(b)	2,508,450	2,191,722
Derivative liabilities	衍生負債	40	304,338	281,921
			36,035,586	34,660,450
Net assets	淨資產		24,734,178	21,883,596
Equity	權益			
Share capital	股本	42	11,276,539	11,276,539
Reserves	儲備	43	13,457,639	10,607,057
Total equity	總權益		24,734,178	21,883,596

The notes on page 99 to 208 are an integral part of these financial statements.

第99頁至208頁的附註為財務報表的整體部份。

The financial statements were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

本財務報表已由本公司董事會於二零一三年三月二十六日批准刊發，並代表董事會簽署。

Liu Shaoyong
劉紹勇
Director
董事

Ma Xulun
馬須倫
Director
董事

CONSOLIDATED CASH FLOW STATEMENT

合併現金流量表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

	Note	2012	2011
	附註	二零一二年	二零一一年
		RMB'000	RMB'000
		人民幣千元	人民幣千元
Cash flows from operating activities			
Cash generated from operations	45(a)	12,822,835	13,781,419
Income tax paid		(205,476)	(158,394)
Net cash inflow from operating activities		12,617,359	13,623,025
Cash flows from investing activities			
Additions of property, plant and equipment		(6,148,139)	(5,414,101)
Payment of short-term deposits with original maturity over three months		-	(1,963,289)
Advanced payments on acquisition of aircraft	21	(7,328,529)	(8,180,128)
Investment in available-for-sale financial assets		-	(1,472)
Acquisition of cargo business of Great Wall Airlines Co., Ltd. ("Great Wall Airlines"), netting of cash acquired		(87,316)	(60,736)
Proceeds from disposal of assets held for sale		209,586	411,535
Proceeds from disposal of property, plant and equipment		181,246	33,881
Proceeds of short-term deposits with original maturity over three months	29	958,489	-
Interest received		215,789	146,529
Dividends received		112,446	82,294
Proceeds from disposal of interests in an associate		2,439	-
Proceeds from disposal of interests in available-for-sale financial assets		94,890	6,426
Net cash outflow from investing activities		(11,789,099)	(14,939,061)

CONSOLIDATED CASH FLOW STATEMENT

合併現金流量表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

	Note	2012	2011
	附註	二零一二年 RMB'000 人民幣千元	二零一一年 RMB'000 人民幣千元
Cash flows from financing activities	融資活動的現金流量		
Proceeds from draw down of short-term bank loans	借入短期借款	23,101,136	19,647,120
Repayments of short-term bank loans	償還短期借款	(25,619,898)	(18,514,150)
Proceeds from issuance of short-term debentures and bonds	發行短期融資券及債券	4,000,000	2,490,417
Proceeds from draw down of long-term bank loans	借入長期借款	10,887,474	5,693,281
Repayments of long-term bank loans	償還長期借款	(8,352,313)	(5,245,147)
Principal repayments of finance lease obligations	償還融資租賃負債本金	(4,094,636)	(2,191,369)
Receipts of restricted bank deposits	收到的限制性存款	236,475	1,108,726
Interest paid	已付利息	(1,936,842)	(1,701,253)
Capital contribution from non-controlling interests of subsidiaries	附屬公司之非控制性權益的出資	453,850	1,004,500
Acquisition of non-controlling interests in subsidiaries	收購附屬公司的非控制性權益	(670,956)	–
Dividends paid to non-controlling interests of subsidiaries	支付附屬公司非控制性權益之股利	(178,580)	(156,526)
Net cash (outflow)/inflow from financing activities	融資活動產生淨現金(流出)/流入	(2,174,290)	2,135,599
Net (decrease)/increase in cash and cash equivalents	現金及現金等價物淨(減少)/增加	(1,346,030)	819,563
Cash and cash equivalents at 1 January	一月一日的現金及現金等價物	3,860,973	3,078,228
Exchange adjustments	匯率調整	(3,247)	(36,818)
Cash and cash equivalents at 31 December	十二月三十一日的現金及現金等價物	2,511,696	3,860,973

The notes on page 99 to 208 are an integral part of these financial statements. 第99頁至208頁的附註為財務報表的整體部份。

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

合併權益變動表

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

		Attributable to equity shareholders of the Company 本公司權益持有者佔權益				Non- controlling	Total equity
		Share capital	Other reserves	Accumulated losses	Subtotal	interests	Total equity
		股本	儲備	累計虧損	小計	非控制性權益	總權益
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Balance at 1 January 2011	二零一一年一月一日結餘	11,276,539	16,950,255	(12,955,507)	15,271,287	1,290,599	16,561,886
Total comprehensive income for the year	年度總綜合收益	-	(134,661)	4,575,732	4,441,071	740	4,441,811
- Profit for the year	一年度利潤	-	-	4,575,732	4,575,732	740	4,576,472
- Other comprehensive loss	一其他綜合虧損	-	(134,661)	-	(134,661)	-	(134,661)
Accumulated losses shared by non-controlling interests after capital injection in a subsidiary	附屬公司非控制性權益增資後分攤的超額虧損	-	426,439	-	426,439	(427,264)	(825)
Dividends paid to non-controlling interests of subsidiaries	支付附屬公司非控制性權益股利	-	-	-	-	(156,526)	(156,526)
Capital contribution by non-controlling interests in a subsidiary	附屬公司非控制性權益增資	-	-	-	-	1,004,500	1,004,500
Acquisition of non-controlling interests in subsidiaries	收購附屬公司非控制性權益股權	-	(12,905)	-	(12,905)	(32,834)	(45,739)
Balance at 31 December 2011	二零一一年十二月三十一日結餘	11,276,539	17,229,128	(8,379,775)	20,125,892	1,679,215	21,805,107
Balance at 1 January 2012	二零一二年一月一日結餘	11,276,539	17,229,128	(8,379,775)	20,125,892	1,679,215	21,805,107
Total comprehensive income for the year	年度總綜合收益	-	(7,374)	2,953,645	2,946,271	(146,080)	2,800,191
- Profit for the year	一年度利潤	-	-	2,953,645	2,953,645	(146,042)	2,807,603
- Other comprehensive loss	一其他綜合虧損	-	(7,374)	-	(7,374)	(38)	(7,412)
Dividends paid to non-controlling interests of subsidiaries	支付附屬公司非控制性權益股利	-	-	-	-	(178,580)	(178,580)
Capital contribution by non-controlling interests in subsidiaries (Note 22(a)&(b))	附屬公司非控制性權益增資 (附註22(a)&(b))	-	-	-	-	453,850	453,850
Acquisition of non-controlling interests in subsidiaries (Note 22(c)&(d))	收購附屬公司非控制性權益股權 (附註22(c)&(d))	-	(490,151)	-	(490,151)	(180,806)	(670,957)
Others	其他	-	343,786	-	343,786	-	343,786
Balance at 31 December 2012	二零一二年十二月三十一日結餘	11,276,539	17,075,389	(5,426,130)	22,925,798	1,627,599	24,553,397

The notes on page 99 to 208 are an integral part of these financial statements. 第99頁至208頁的附註為財務報表的整體部份。

NOTES TO THE FINANCIAL STATEMENTS

財務報表附註

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

1. CORPORATE INFORMATION

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

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

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

These financial statements were approved for issue by the Company’s Board of Directors (the “**Board**”) on 26 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

(i) Going concern

As at 31 December 2012, the Group’s accumulated losses were approximately RMB5.43 billion and its current liabilities exceeded its current assets by approximately RMB35.95 billion. For the year ended 31 December 2012, cash and cash equivalents of the Group decreased by RMB1.35 billion. In preparing the financial statements, the Board considers the adequacy of cash inflows from operations and financing to meet its financial obligations as and when they fall due.

1. 公司資料

中國東方航空股份有限公司(「**本公司**»)是於一九九五年四月十四日在中華人民共和國(「**中國**»)成立的一間股份有限公司。本公司註冊地址為中國上海市浦東國際機場機場大道66號。本公司及其附屬公司(以下合稱「**本集團**»)主要經營民航業務，包括客運、貨運、郵運、旅遊服務及其他延伸的航空業務。

本公司大部份權益現由一家成立於中國名為中國東方航空集團公司(「**中國東航集團**»)的國有企業所擁有。

本公司的股份在上海證券交易所、香港聯合交易所有限公司及紐約證券交易所上市。

本財務報表已由本公司董事會(「**董事會**»)於二零一二年三月二十六日批准刊發。

2. 重要會計政策摘要

編製本財務報表採用的主要會計政策載於下文。除另有說明外，此等政策在所呈報的所有年度內貫徹應用。

(a) 編製基準

本集團的財務報表根據國際財務報告準則(「**財務準則**»)及香港《公司條例》的披露規定編製。財務報表按照歷史成本法編製，並就可供出售金融資產、以公允值計量且其變動計入損益的金融資產和金融負債(包括衍生工具)的重估而作出修訂。

(i) 持續經營

截至二零一二年十二月三十一日，本集團的累計虧損約為人民幣54.3億元，流動負債超過流動資產約人民幣359.5億元。於截至二零一二年十二月三十一日止年度，本集團現金及現金等價物下降人民幣13.5億元。於編製本年度財務報表時，本公司董事會結合公司經營及籌資現金流入的情況，對本集團償還到期債務的能力進行了充分詳盡的評估。

NOTES TO THE FINANCIAL STATEMENTS 財務報表附註

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(a) Basis of preparation (continued)

(i) Going concern (continued)

As at 31 December 2012, the Group had total unutilised credit facilities of approximately RMB27.09 billion from banks. The Board believes that, based on experience to date, it is likely that these facilities will be rolled over in future years if required.

With the cash inflows from operations and available credit facilities, the Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements for the upcoming twelve months. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

(ii) New and amended standards adopted by the Group

The Group has adopted the following new standards and amendments to existing standards which are relevant for the Group's existed business and mandatory for the first time for the financial year beginning 1 January 2012:

- Amendments to IFRS 7, Financial instruments: Disclosures – Transfer of financial assets: this amendment promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on the Company's financial position. The Group did not have any significant transfers of financial assets in previous year or the current year which require disclosures in current accounting year under the amendments and these amendments have had no material impact on the Group.

(a) 編製基準(續)

(i) 持續經營(續)

截至二零一二年十二月三十一日，本集團已簽約但尚未使用的銀行授信額度約為人民幣270.9億元。本公司董事會相信該等授信額度的授信期間在需要時可以延長至以後年度。

鑒於經營活動產生的現金流入及可用的銀行授信額度，本公司董事會認為在未來的十二個月內，本集團可以繼續獲取足夠的融資來源，以保證經營、償還到期債務以及資本性支出所需的資金。據此，本公司董事會確信以持續經營為基礎編製本年度財務報表是恰當的，無需包括任何在本集團及本公司在未能滿足持續經營條件下所需計入的調整。

(ii) 本集團已採納的新訂及已修改的準則

本集團已採用下列目前與本集團的業務相關且必須於二零一二年一月一日開始的財政年度首次採用的新訂準則及對現有準則的修改：

- 與國際財務報告準則「披露一金融資產的轉讓」相關的修改，此修改將加強轉讓交易報告的透明度，並有助於使用者了解金融資產轉讓的風險以及此等風險對主體財務狀況的影響。本集團在以前年度或二零一一年度沒有發送此類需要按照該項修改在當期披露的重大金融資產轉讓，該項修改對本集團並無重大影響。

NOTES TO THE FINANCIAL STATEMENTS 財務報表附註

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(a) Basis of preparation (continued)

(ii) New and amended standards adopted by the Group (continued)

- Amendment related to IAS12, "Income taxes". Currently IAS 12, 'Income taxes' requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment Property". Hence, this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income tax – recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. This improvement has no material impact on the Group.

(iii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2012 but not currently relevant to the Group

IFRS 1 (Amendment)	First-time Adoption of IFRSs – Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters
IFRS 1 (Amendment)	First time adoption on hyperinflation and fixed dates

(a) 編製基準(續)

(ii) 本集團已採納的新訂及已修改的準則(續)

- 與國際會計準則12「所得稅」相關的修改，該項修改規定主體必須計量與資產相關的遞延稅項，視乎主體是否預期可透過使用或出售收回該資產的賬面值。當資產根據國際會計準則40「投資性房地產」使用公允價值計量時，這或會很難和主觀地評估收回是否透過使用或透過出售達成。此修改因此引入了按公允價值入賬的投資性房地產所產生的遞延稅項資產或負債的計量原則的例外情況。由於此項修改，常設解釋委員會解釋公告第21號「所得稅－收回非折舊資產的重估值」將不再適用於按公允價值入賬的投資性房地產。此修改亦將常設解釋委員會解釋公告第21號之前所包含的其餘指引(已撤回)納入國際會計準則12。該項修改對本集團並無重大影響。

(iii) 於二零一二年一月一日開始的財政年度生效但目前不適用於本集團的新訂準則及對現有準則的修改

國際財務報告準則1 (修改)	首次採納國際財務報告準則－對首次採納者執行國際財務報告準則7披露的比較數據的有限豁免
國際財務報告準則1 (修改)	首次採納有關嚴重惡性通貨膨脹和固定日期的修改

NOTES TO THE FINANCIAL STATEMENTS 財務報表附註

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(a) Basis of preparation (continued)

(iv) New standards, amendments and interpretations to existing standards have been issued but not yet effective for the financial year beginning 1 January 2012 and which are relevant for the Group's operations

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on after 1 January 2013, but the Group has not early adopted them:

- IAS 19 (Amendment) (effective from 1 January 2013). This amendment eliminate the corridor approach and calculate finance costs on a net funding basis. "Remeasurements" replace "actuarial gains and losses" and include the difference between actual investment returns and the return implied by the net interest cost and any effect of an asset ceiling. They are recognised in other comprehensive income and not recycled to income. The "corridor" method and the option to recognise immediately in the income statement are no longer available. This will increase balance sheet volatility for many entities. The Group will apply the standard retrospectively from 1 January 2013 and the "actuarial gains and losses" will be recognised in other comprehensive income. As at 31 December 2012, the unrecognised actuarial losses is RMB2.89 billion.

(a) 編製基準(續)

(iv) 於二零一二年一月一日開始的財政年度仍未生效，並與本集團經營活動有關的準則、修改及對現有準則的詮釋

以下為已公佈的準則、修改及對現有準則的詮釋，而本集團必須在二零一三年一月一日開始的會計期間採納，但本集團並無提早採納：

- 國際會計準則19(修改)(從二零一三年一月一日起生效)。此修改刪除了區間法，並按淨注資基準計算融資成本。「重新計量」取代了「精算利得和損失」，其包括實際投資回報和淨利息成本所暗示的回報之間的差異，以及資產上限的影響。重新計量確認為其他綜合收益，並不轉回至收益。「區間」法和在利潤表中立即進行確認的選擇不再可用。這將提高諸多主體資產負債表的波動性。集團將從二零一三年一月一日起採納這一政策。「精算利得和損失」將會確認為其他綜合收益。於二零一二年十二月三十一日，集團賬面未確認的精算損失為人民幣28.9億元。

NOTES TO THE FINANCIAL STATEMENTS 財務報表附註

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(a) Basis of preparation (continued)

(iv) New standards, amendments and interpretations to existing standards have been issued but not yet effective for the financial year beginning 1 January 2012 and which are relevant for the Group's operations (continued)

- IFRS 9 'Financial Instruments' (effective from January 1, 2013). The standard addresses classification and measurement of financial assets, introducing the following changes: (i) Introduces a single model that has only two classification categories: amortised cost and fair value, which are driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. (ii) Removes the requirement to separate embedded derivatives from financial asset hosts, and requires a hybrid contract to be classified in its entirety at either amortised cost or fair value. (iii) Prohibits reclassifications except in rare circumstances when the entity's business model changes and the changes apply prospectively. (iv) Provides specific guidance for contractually linked instruments that create concentrations of credit risk, which is often the case with investment tranches in a securitisation. (v) Indicates that all equity investments should be measured at fair value. However, management has an option to present in other comprehensive income unrealised and realised fair value gains and losses on equity investments that are not held for trading. (vi) Removes the cost exemption for unquoted equities and derivatives on unquoted equities but provides guidance on when cost may be an appropriate estimate of fair value. The management is in the process of evaluating the impact of IFRS 9 on the Group and will apply the standard from 1 January 2013.

(a) 編製基準(續)

(iv) 於二零一二年一月一日開始的財政年度仍未生效，並與本集團經營活動有關的準則、修改及對現有準則的詮釋(續)

- 國際財務報告準則9「金融工具」(從二零一三年一月一日起生效)。此項新準則對金融工具的分類和計量進行規範，主要有以下變化：(i)將金融資產只分為攤餘成本和公允價值二個分類，對金融資產的分類是以主體管理金融資產的業務模式及金融資產的合同現金流特徵為依據。(ii)取消了將嵌入衍生工具從金融資產主合同中分拆出來的規定，而是要求將混合合同整體分類為攤餘成本或公允價值。(iii)除非在主體的業務模式發生變化的罕見情形下，國際財務報告準則9禁止報告主體對金融資產進行重分類。在需要重分類的情況下，主體應對受到影響的金融資產按未來適用法進行重分類。(iv)對於產生信用風險集中的合同掛鈎金融工具提供了具體指引，而此類工具則是經常存在於對證券化結構性債券的投資。(v)國際財務報告準則9的分類原則指出，所有者權益投資應以公允價值計量。然而，管理層可以選擇將非為交易目的而持有的權益投資的已實現和未實現的公允價值利得和損失計入其他綜合收益。(vi)取消了無市價權益投資和與其相關的衍生工具的成本計量豁免，但提供了關於哪個時點的成本可以作為公允價值的適當估計的指引。管理層正在評估該準則對本集團的影響，並且將從二零一三年一月一日起採納。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(a) Basis of preparation (continued)

(iv) New standards, amendments and interpretations to existing standards have been issued but not yet effective for the financial year beginning 1 January 2012 and which are relevant for the Group's operations (continued)

- IFRS 10 "Consolidated financial statements" (effective from 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements. The management is in the process of evaluating the impact of IFRS 10 on the Group and will apply the standard from 1 January 2013.
- IFRS 13 "Fair value measurement" (effective from 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and United States Generally Accepted Accounting Principles ("US GAAP"), do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The management is in the process of evaluating the impact of IFRS 13 on the Group and will apply the standard from 1 January 2013.

(a) 編製基準(續)

(iv) 於二零一二年一月一日開始的財政年度仍未生效，並與本集團經營活動有關的準則、修改及對現有準則的詮釋(續)

- 國際財務報告準則10「合併報表」(從二零一三年一月一日起生效)。國際財務報告準則10旨在就某一主體如控制一個或多個其他主體而呈報合併財務報表，訂定呈報和編製合併財務報表的原則。界定控制的原則並確立控制權為合併的基準。列明如何應用控制權原則以確定某一投資者是否控制某一被投資公司從而該投資者必須合併該被投資公司。該準則亦列載編製合併財務報表的會計規定。管理層正在評估該準則對本集團的影響，並且將從二零一三年一月一日起採納。
- 國際財務報告準則13「公允價值計量」(從二零一三年一月一日起生效)。國際財務報告準則13旨在加強公允價值的計量和披露的一致性 and 減低其複雜性，為公允價值提供了一個精確定義，並作為所有國際財務報告準則中有關公允價值計量和披露規定的單一來源。此準則主要為配合國際財務報告準則與美國公認會計原則，並不是擴展公允價值會計法的應用，但提供指引說明如果其他準則(在國際財務報告準則或美國公認會計原則內)已規定或容許時該如何應用。管理層正在評估該準則對本集團的影響，並且將從二零一三年一月一日起採納。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(a) Basis of preparation (continued)

(iv) New standards, amendments and interpretations to existing standards have been issued but not yet effective for the financial year beginning 1 January 2012 and which are relevant for the Group's operations (continued)

- IAS 1 (Amendment) (effective from 1 July 2013) "Financial statements presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group will apply the standard from 1 July 2013 and it is not expected to have material impact on the Group's or Company's financial statement.
- IFRS 11 (effective from 1 January 2013) "Joint arrangement". IFRS 11 is a more realistic reflection of joint arrangement by focusing on the right and obligation of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operation has right to assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operation has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group will apply the standard from 1 January 2013 and it is not expected to have material impact on the Group's or Company's financial statement.

(a) 編製基準(續)

(iv) 於二零一二年一月一日開始的財政年度仍未生效，並與本集團經營活動有關的準則、修改及對現有準則的詮釋(續)

- 國際會計準則1(修改)(自二零一三年七月一日起生效)「財務報表的呈報」有關其他綜合收益。此修改的主要變動為規定主體將在「其他綜合收益」中呈報的項目，按此等項目其後是否有機會重分類至損益(重分類調整)而組合起來。此修改並無針對哪些項目是在其他綜合收益中呈報。本集團將從二零一三年七月一日起採納該準則，並預期對本集團或本公司的財務報表無重大影響。
- 國際財務報告準則11(自二零一三年一月一日起生效)「合營安排」。該準則對合營安排有更實質的反映，集中針對合營安排的權利和義務而非其法定形式。合營安排分為兩大類：共同經營和合營企業。共同經營指其共同經營者有權獲得與安排有關的資產和債務，因此確認其資產、負債、收入和開支的權益。在合營企業中，合營經營者取得安排下淨資產的權利，因此使用權益法入賬。不再容許將合營企業的權益使用比例合併法入賬。本集團將從二零一三年一月一日起採納該準則並且預期對本集團或本公司的財務報表無重大影響。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(a) Basis of preparation (continued)

(iv) New standards, amendments and interpretations to existing standards have been issued but not yet effective for the financial year beginning 1 January 2012 and which are relevant for the Group's operations (continued)

- IAS 28 (Revised 2011) (effective from 1 January 2013) "Associates and joint ventures". The amendment includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The management is in the process of evaluating the impact of IAS 28 on the Group and will apply the standard from 1 January 2013.
- IFRS 12 (effective from 1 January 2013) "Disclosure of interests in other entities". The amendment includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The management is in the process of evaluating the impact of IFRS 12 on the Group and will apply the standard from 1 January 2013.
- IAS 27 (revised 2011) (effective from 1 January 2013) "Separate financial statements". The amendment includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The management is in the process of evaluating the impact of IAS 27 on the Group and will apply the standard from 1 January 2013.

(a) 編製基準(續)

(iv) 於二零一二年一月一日開始的財政年度仍未生效，並與本集團經營活動有關的準則、修改及對現有準則的詮釋(續)

- 國際會計準則28(二零一一年修訂)(自二零一三年一月一日起生效)「聯營和合營」。在國際財務報告準則11發佈後，國際會計準則(二零一一年修訂)包括有關將合營和聯營按權益法入賬的規定。管理層正在評估該準則對本集團的影響，並將從二零一三年一月一日起採納。
- 國際財務報告準則12(自二零一三年一月一日起生效)「在其他主體權益的披露」。該準則包括在其他主體的所有形式的權益的披露規定，包括合營安排、聯營、特別用途工具和其他資產負債表外工具。管理層正在評估該準則對本集團的影響，並將從二零一三年一月一日起採納。
- 國際會計準則27(二零一一年修訂)(自二零一三年一月一日起生效)「獨立財務報表」。國際會計準則的控制權條文已包括在新的國際財務報告準則10，國際會計準則27(二零一一年修訂)只載入有關獨立財務報表的條文。管理層正在評估該準則對本集團的影響，並將從二零一三年一月一日起採納。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

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

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

(b) 合併賬目

合併賬目包括本公司及所有附屬公司截至十二月三十一日止的財務報表。

(i) 附屬公司

附屬公司指本集團有權管控其財政及經營政策的所有主體(包括特殊目的主體)，一般附帶超過半數投票權的股權。在評定本集團是否控制另一主體時，目前可行使或可兌換的潛在投票權的存在及影響均予考慮。如本集團不持有超過50%投票權，但有能力基於實質控制權而管控財務和經營政策，也會評估是否存在控制權。實質控制權可來自例如增加非控制性權益的數目或股東之間的合約條款等情況。

附屬公司在控制權轉移至本集團之日全面合併入賬。附屬公司在控制權終止之日起停止合併入賬。

本集團利用購買法將業務合併入賬。購買一附屬公司所轉讓的對價，為所轉讓資產、對被收購方的前所有人產生的負債，及本集團發行的股本權益的公允價值。所轉讓的對價包括或有對價安排所產生的任何資產和負債的公允價值。就個別收購基準，本集團可按公允價值或按非控制性權益應佔被購買方淨資產的比例，計量被收購方的非控制性權益。

購買相關成本在產生時支銷。在業務合併中所購買可辨認的資產以及所承擔的負債及或有負債，首先以彼等於購買日期的公允價值計量。

如業務合併分階段進行，收購方之前在被收購方持有的權益按收購日期的公允價值重新計量，並確認損益。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed (Note (k)(i)). If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) 合併賬目(續)

(i) 附屬公司(續)

集團將轉讓的任何或有對價按收購日期的公允價值計量。被視為資產或負債的或有對價公允價值的其後變動，根據國際會計準則39的規定，在損益中或作為其他綜合收益的變動確認。分類為權益的或有對價不重新計量，其之後的結算在權益中入賬。

附屬公司投資按成本扣除減值列賬。成本經調整以反映修改或有對價所產生的對價變化，成本亦包括投資的直接歸屬成本。

商譽初步計量為轉讓對價與非控制性權益的公允價值總額，超過所購入可辨認資產和承擔負債淨值的差額(附註(k)(i))。如果對價低過所購買附屬公司淨資產的公允價值，該差額在損益中確認。

集團內公司之間的交易、結餘及收支予以對銷。來自集團內公司間的利潤和損失(確認於資產)亦予以對銷。附屬公司的會計政策已按需要作出改變，以確保與本集團採用的政策符合一致。

(ii) 與非控制權益的交易

本集團將其與非控制性權益進行、不導致失去控制權的交易入賬為權益交易—即與所有者以其作為所有者身份進行的交易。所支付任何對價的公允價值與相關應佔所收購附屬公司淨資產賬面值的差額記錄為權益。向非控制性權益的處置的盈虧亦記錄在權益中。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(b) Consolidation (continued)

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) Associates

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

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

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

(b) 合併賬目(續)

(iii) 出售附屬公司

當本集團不再持有控制權，在主體的任任何保留權益於失去控制權當日重新計量至公允價值，賬面值的變動在損益中確認。公允價值為就保留權益的後續入賬而言的初始賬面值，作為聯營、合營或金融資產。此外，之前在其他綜合收益中確認的任何數額猶如本集團已直接處置相關資產和負債。這意味著之前在其他綜合收益中確認的數額重新分類至損益。

(iv) 聯營公司

聯營公司指所有本集團對其有重大影響力而無控制權的實體，通常附帶有20%至50%投票權的股權。聯營公司投資以權益會計法入賬，初始以成本確認。本集團於聯營公司之投資包括收購時已識別的商譽(扣除任何累計減值虧損)。

本集團應佔收購後聯營公司的溢利或虧損於合併利潤表內確認，而應佔收購後其他綜合收益的變動則於儲備賬內確認。投資賬面值會根據累計之收購後儲備變動而作出調整。如本集團應佔一家聯營公司之虧損等於或超過其在該聯營公司之權益，包括任何其他無抵押應收款，本集團不會確認進一步虧損，除非本集團已代聯營公司承擔責任或作出付款。

本集團與其聯營公司之間交易的未實現收益按集團在聯營公司權益的數額對銷。除非交易提供了所轉讓資產減值之憑證，否則未實現虧損亦予以對銷。聯營公司的會計政策已按需要作出改變，以確保與本集團採用的政策符合一致。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(b) Consolidation (continued)

(iv) Associates (continued)

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

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses (Note 2(n)). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(v) Jointly controlled entities

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

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

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

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2(n)). The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

(b) 合併賬目(續)

(iv) 聯營公司(續)

在聯營公司的攤薄盈虧於合併利潤表確認。

在本公司之資產負債表內，於聯營公司之投資按成本值扣除減值虧損準備列賬(附註2(n))。聯營公司之業績由本公司按已收及應收股息入賬。

(v) 合營公司

合營公司是指本集團，在合約條款下，對其經營活動擁有共同控制決定權的實體。本集團對合營公司的投資包括收購時已識別的商譽(扣除任何累計減值虧損)。

本集團根據合營公司經審計或管理層提供的財務報告，按權益法確認對合營公司的權益份額。本集團自收購日起應佔合營公司的溢利或虧損計入合併利潤表，自收購日後的累計變動乃用作調整投資的賬面值。當本集團所應佔的合營公司虧損已超過或等於其投資成本，包括任何其他非抵押的應收款，本集團不會確認進一步虧損，除非本集團已代合營公司承擔責任或作出付款。

本集團對向合營公司出售資產中其他合營方應佔的盈虧部份確認入賬。本集團不確認本集團向合營公司購入資產而產生之應佔合營企業盈虧，除非其已將資產轉售予獨立的第三方。然而，若有關虧損證明流動資產的可變現淨值減少或出現減值虧損，交易虧損即時確認。

在本公司之資產負債表內，於合營公司之投資按成本值扣除減值虧損準備列賬(附註2(n))。合營公司之業績由本公司按已收及應收股息入賬。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(c) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the office of the General Manager that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'.

(c) 分部報告

經營分部按照向首席經營決策者提供的內部報告貫徹一致的方式報告。首席經營決策者被認定為作出決策性決定，並負責分配資源和評估經營分部的表現的總經理辦公室。

(d) 外幣換算

(i) 功能和列賬貨幣

本集團每個實體的財務報表所列項目均以該實體營運所在的主要經濟環境的貨幣計量(「功能貨幣」)。本財務報表以人民幣呈報，人民幣為本公司及本集團每個實體的功能及列賬貨幣。

(ii) 交易及結餘

外幣交易採用交易日的匯率換算為功能貨幣。除了符合在其他綜合收益中遞延入賬的現金流量對沖和淨投資對沖外，結算此等交易產生的匯兌盈虧以及將外幣計值的貨幣資產和負債以年終匯率換算產生的匯兌盈虧在利潤表確認。

與借款和現金及現金等價物有關的匯兌利得和損失在利潤表內的「財務收入或費用」中列報。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(e) Revenue recognition and sales in advance of carriage

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

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

The Group operates frequent flyer programmes that provide travel awards to programme members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognised when the miles have been redeemed or have expired.

(i) Traffic revenues

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

(ii) Ground service income

Revenues from the provision of ground services are recognised when the services are rendered.

(iii) Tour operation revenues

Revenues from tour and travel services and other travel related services are recognised when the services are rendered.

(iv) Cargo handling income

Revenues from the provision of cargo handling income are recognised when the service are rendered.

(e) 收入的確認與預售票款

收入指本集團在日常經營活動過程中出售貨品及提供服務的已收或應收對價的公允值。收入在扣除營業稅及增值稅、退貨、回扣和折扣，以及對銷集團內部銷售後列賬。

當收入的數額能夠可靠計量、未來經濟利益有可能流入有關實體，而本集團每項活動均符合具體條件時(如下文所述)，本集團即確認收入。除非與銷售有關的所有或然事項均已解決，否則收入的數額不被視為能夠可靠計量。本集團根據其以往業績並考慮客戶類別、交易種類和每項安排的特點作出估計。

本公司的常旅客計劃根據會員累計的里程給予對應的獎勵積分。獎勵積分被兌換或者失效之前，與獎勵積分相關的承運票款收入部分會被遞延。

(i) 運輸收入

客運、貨運與郵運收入於提供運輸服務時確認為運輸收入。售出但未使用的機票金額則作為預售票款。

(ii) 地面服務收入

地面服務收入於提供服務時確認。

(iii) 旅遊服務收入

旅遊服務及其他旅遊相關服務均在提供服務時確認收入。

(iv) 貨運處理費收入

提供貨運處理服務的收入將會在服務提供時予以確認。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(e) Revenue recognition and sales in advance of carriage (continued)

(v) Commission income

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

(vi) Other revenue

Revenues from other operating businesses, including income derived from the provision of freight forwarding, are recognised when the services are rendered.

(f) Government grants

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

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

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

(g) Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has obligations to fulfill certain return conditions under the leases. Provision for the estimated cost of these return condition checks is made on a straight line basis over the term of the leases.

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

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

(e) 收入的確認與預售票款(續)

(v) 佣金收入

佣金收入包括由本集團為其他航空公司售票而賺取的款項。佣金收入於機票出售時確認。

(vi) 其他營運收入

其他營運收入包括貨運代理的收入均在提供服務時確認。

(f) 政府補貼

政府補貼在本集團已滿足補貼附帶的條件及有合理的保證相關的補貼將可收取時，按公允值確認。

與成本有關之政府補貼遞延入賬，並按擬補償之成本配合所需期間在利潤表中確認。

與購置物業、機器及設備有關之政府補貼列入非流動負債作為遞延政府補貼，並按有關資產之預計年期以直線法在利潤表確認。

(g) 維修與大修費用

對於經營性租賃的飛機及發動機，本集團有責任滿足約定的交還條件。為滿足交還條件的估計大修費用於相關租賃期內按直線法計提。

對於本公司自置及融資租賃的飛機及發動機，大修費用作為物業、機器及設備的一部份進行資本化，並於估計的大修期間內攤銷(附註2(i))。

其他日常維修於發生時計入利潤表。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(h) Interest income

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

(i) Borrowing costs

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

(j) Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

(h) 利息收入

利息收入採用實際利息法按時間比例基準確認。倘若貸款或應收賬款出現減值，本集團會將賬面值減至可收回款額，即估計的未來現金流量按該工具之原實際利率貼現值，並繼續將貼現計算並確認為利息收入。已減值貸款或應收賬款之利息收入利用原實際利率確認。

(i) 借貸成本

為興建任何合資格資產包括為購買新飛機而支付的預付款而產生的借貸成本，在完成和籌備資產作其預定用途所需的期間內予以資本化。其他借貸成本直接計入當期費用。

(j) 當期和遞延所得稅

本期間的稅項支出包括當期和遞延稅項。稅項在利潤表中確認，但與其他綜合收益中或直接在權益中確認的項目有關者則除外。在該情況下，稅項亦分別在其他綜合收益或直接在權益中確認。

當期所得稅支出根據本公司、其附屬公司、聯營公司及合營公司營運及產生應課稅收入的國家於資產負債表日已頒佈或實質頒佈的稅務法例計算。管理層就適用稅務法例詮釋所規限的情況定期評估報稅表的狀況，並在適用情況下根據預期須向稅務機關支付的稅款設定撥備。

遞延所得稅採用負債法就資產和負債的稅基與資產和負債在合併財務報表的賬面值之差異產生的暫時差異撥備。然而，若遞延所得稅負債因商譽的初步確認而產生或遞延所得稅來自在交易(不包括企業合併)中對資產或負債的初步確認，而在交易時不影響會計損益或應課稅盈虧的，則不作記賬。遞延稅項採用在資產負債表日前已頒佈或實質頒佈，並在有關之遞延所得稅資產實現或遞延所得稅負債結算時預期將會適用之稅率(及法例)而釐定。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(j) Current and deferred tax (continued)

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

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

(k) Intangible assets

(i) Goodwill

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

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

(ii) Computer software costs

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

(j) 當期和遞延所得稅(續)

遞延所得稅資產是確認至未來很可能產生之應課稅盈利可抵銷的暫時性差異。

遞延稅項就附屬公司、聯營公司及合營公司投資產生之暫時差異而撥備，但本集團可以控制暫時差異之撥回時間，且暫時差異在可預見將來有可能不會撥回則除外。

(k) 無形資產

(i) 商譽

商譽指於收購日期收購成本超過本集團應佔所收購附屬公司、聯營公司及合營公司的可識辨資產公允值的數額。收購附屬公司的商譽包括在無形資產內。收購聯營公司及合營公司的商譽包括在聯營公司及合營公司投資內，並作為整體結餘的一部份一並就減值進行測試。分開確認的商譽至少每年或當有商譽減值現象時就減值進行測試，並按成本減累計減值虧損列賬。商譽的減值虧損不予撥回。出售某個實體的盈虧包括與被出售實體有關的商譽的賬面值。

就減值測試之目的，商譽會分配至現金產生單元。此項將商譽分配到現金產生單元或現金產生單元組乃根據預期可從業務合併產生的商譽中得益的可識別經營分部。

(ii) 電腦軟件

購入的電腦軟件牌照按購入及使該特定軟件達到可使用時所產生的成本作資本化處理。此等成本按估計可使用年期五年攤銷。與發展或維護電腦軟件程式有關的成本在產生時確認為費用。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(l) Deferred pilot recruitment costs

Deferred pilot recruitment costs represent the cost bore by the Group in connection with securing certain minimum period of employment of pilots and are amortised on a straight-line basis over the anticipated beneficial period of five years, starting from the pilot joins the Group.

(m) Property, plant and equipment

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

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

When each major aircraft overhaul is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment and is depreciated over the appropriate maintenance cycles. Components related to airframe overhaul cost, are depreciated on a straight-line basis over 5 to 7.5 years. Components related to engine overhaul costs, are depreciated between each overhaul period using the ratio of actual flying hours and estimated flying hours between overhauls (equivalent to approximately 2 to 5 years). Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognised and charged to the income statement.

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

Owned and finance leased aircraft and engines	15 to 20 years
Other flight equipment, including rotables	10 years
Buildings	15 to 45 years
Other property, plant and equipment	5 to 20 years

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

(l) 遞延飛行員養成費

遞延飛行員養成費指由本集團承擔的與飛行員養成相關的支出。該些支出之目的為保證飛行員為本集團服務一定期限，並自飛行員加入本集團之日起按5年的預期受益期以直線法攤銷。

(m) 物業、機器及設備

物業、機器及設備於購入時按成本列賬，成本包括資產的購買價及其他用於令此資產達至現時用途的費用。

倘某項物業、機器及設備項目各部件的使用年期各有不同，該項目的成本按合理基準在各部件之間進行分配，而每部件則各自計算折舊。

當一項飛機大修進行時，大修費用的成本會包括在物業、機器及設備的賬面價值中，並於估計的大修期間內攤銷。機身大修費用相關的組件以直線法在5至7.5年內攤銷，發動機大修費用相關的組件以實際飛行小時與預期飛行小時(約相當於2到5年)之比例計提折舊。當一項大修完成時，以往大修費用的餘額將全部沖減並計入利潤表。

除上述與大修費用有關的部件外，其他資產乃根據其預計可用年限及估計殘值以直線法攤銷其成本。用於計算每年折舊費用的預計可使用年限列示如下：

自置及融資租賃飛機及發動機	15至20年
其他飛行設備，包括高價周轉件	10年
樓宇	15至45年
其他物業、機器及設備	5至20年

資產的殘值及預計使用年限於資產負債表日重新評估並在適當時作調整。如果資產的賬面價值大於其預期可回收額，則賬面價值將立即減低以可回收金額列報。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(m) Property, plant and equipment (continued)

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

Construction in progress represents buildings under construction and equipment pending installation. This includes the costs of construction or acquisition and interest capitalised. No depreciation is provided on construction in progress until the asset is completed and ready for use.

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

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

(o) Assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and are classified as assets held for sale.

(p) Lease prepayments

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

(q) Advanced payments on acquisition of aircraft

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

(m) 物業、機器及設備(續)

出售收益或虧損乃所得收入淨額與資產賬面值的差額，並於利潤表中予以確認。

在建工程為興建中的樓宇及待安裝的設備。在建工程按建造或購置成本列賬，並計入資本化的利息。在資產完成建造並達到可使用狀態前，不計提折舊。

(n) 附屬公司、聯營公司、合營公司及非金融資產的減值

沒有確定使用年期或尚未可供使用之資產無需攤銷，但最少每年或當有減值跡象時就減值進行測試。其他資產則當有事件出現或情況改變顯示賬面值可能無法收回時就減值進行檢討。減值虧損按資產之賬面值超出其可收回金額之差額確認。可收回金額乃以資產之公允值扣除銷售成本或使用價值兩者之間較高者為準。於評估減值時，資產按可分開識辨現金流量(現金產生單元)的最低層次組合。除商譽外，已計提減值的非金融資產在每個資產負債表日均就減值是否可以撥回進行檢討。

(o) 持有待售資產

當非流動資產的賬面值極可能透過出售交易收回而非通過使用實現，則將其分類為持有待售資產，按賬面值與公允價值減去處置費用兩者的較低者列賬。

(p) 預付租賃款

預付租賃款乃土地使用權的購入成本減除累計攤銷。預付租賃款按土地使用權的使用年限以直線法進行攤銷。

(q) 飛機預付款

為確保日後接收飛機而支付給飛機製造商的合同預付款，均連同相應資本化利息確認為資產，記入非流動資產並於飛機交付時轉至物業、機器及設備。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(r) Flight equipment spare parts

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

(s) Trade receivables

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

(t) Cash and cash equivalents

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

(u) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(r) 飛機設備零件

飛機設備零件按成本和可變現淨值兩者的較低者列賬。成本按加權平均法計算。飛機設備零件的成本包括購買價(扣除折扣的淨額)、運費、關稅、增值稅及其他各項雜費。可變現淨值為在通常業務過程中飛機設備零件的估計銷售價扣除相應的銷售費用。

(s) 應收賬款

應收賬款以公允價值初始確認，其後則以實際利息法，按攤銷成本扣除減值準備計算。如有客觀證據顯示集團無法按照應收賬項的原來條款全數收回欠款，則須為應收賬款作出減值準備。當債務人遇到重大財政困難，例如破產、財政重組、或債務人未能履行償債義務時，可視為該應收賬款有計提減值準備的跡象。撥備額為資產賬面金額與估計未來現金流量按實際利率計算的貼現現值兩者的差額。資產的賬面值透過使用備付賬戶削減，而有關的虧損數額則在利潤表內確認。如一項應收賬款無法收回，該應收賬目將與撥備賬戶撤銷。之前已撤銷的款項如其後收回，將貸記於利潤表內。

(t) 現金及現金等價物

現金及現金等價物包括現金、銀行通知存款、原到期日為三個月或以下的其他短期高流動性投資。

(u) 應付賬款

應付賬款為在日常經營活動中購買商品或服務而應支付的債務。如應付款的支付日期在一年或以內(如仍在正常經營週期中，則可較長時間)，其被分類為流動負債；否則分類為非流動負債。

應付賬款以公允價值為初始確認，其後利用實際利率法按攤銷成本計量。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(v) Borrowings

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

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

(w) Provisions

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

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

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

For the contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, the present obligation under the contract is recognised and measured as a provision.

(v) 借款

借款按公允值並扣除產生的交易成本初始確認。借款其後按攤銷成本列賬；所得款(扣除交易成本)與贖回價值的任何差額利用實際利息法於貸款期間內在利潤表確認。

除非本集團有無條件權利將負債的結算遞延至資產負債表日後最少12個月，該借款分類為非流動負債，否則借款分類為流動負債。

(w) 撥備

當本集團因已發生的事件須承擔現有的法律性或推定性的責任，而有可能需要資源流出以償付責任，金額亦能可靠估計時，則本集團需確立撥備。

如有多項類似責任，其需要在償付中流出資源的可能性，根據責任的類別整體考慮。即使在同一責任類別內所包含的任何一個項目相關的資源流出的可能性極低，仍須確認撥備。

撥備的金額以解除責任所需支出的現值加以確認。支出的現值將運用能反映出當時市場評估貨幣資金時間性價值以及相對於該責任的風險的稅前比率來確定。因時間推移導致的撥備的增加則被確認為財務費用。

當履行合同約定義務所發生的不可避免的成本超過了該合同預期的經濟利益流入，則該合同的現時義務被確認和計量為一項撥備。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(x) Leases

(i) A Group company is the lessee

Finance leases

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

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

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

Operating leases

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

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognised immediately in the income statement, except to the extent that any profit or loss is compensated for by future lease payments at above or below market value, then the profit or loss is deferred and amortised over the period for which the asset is expected to be used.

(x) 租賃

(i) 集團內的公司為承租人

融資租賃

本集團租賃若干物業、機器及設備。融資租賃是指將擁有資產的風險及回報實質上轉讓予本集團的租賃。融資租賃的原值乃按在開始時按租賃資產的公允值或最低租賃付款的現值較低者入賬。

每期租金均分攤為資本性支出及財務費用，以達到租賃利率為結欠本金的固定比率。有關租賃負債，在扣除財務費用後，列報於應付款的流動及長期部份。財務費用於租約期內在利潤表中列支，以達到租賃利率為結欠餘額的固定比率。融資租賃的物業、機器及設備的折舊乃根據資產的預計可用年限以直線法攤銷其成本至其估計殘值。

有關售後回租形成一項融資租賃，出售價及賬面淨值的差異將予以遞延並按最低租賃期攤銷。

經營租賃

如租賃擁有權的重大部份風險和回報由出租人保留，分類為經營性租賃。經營性租賃支付的租金（扣除從出租人收取之任何獎勵金後）於租賃期內以直線法在利潤表支銷。

有關售後回租形成一項經營性租賃，出售價及賬面淨值的差異，除卻相關損益由低於或高於市價的未來租賃付款額補償的部份外，則所有損益應立即予以確認。其後的利得與損失將會在整個使用期內予以分期確認。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(x) Leases (continued)

(ii) A Group company is the lessor

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

(y) Retirement benefits

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

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

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

(x) 租賃(續)

(ii) 集團內的公司為出租人

以經營租賃方式分租的資產乃包括在資產負債表的物業、機器及設備中，並按同類物業、機器及設備的預計可使用年限計提折舊，產生的租金收入按直線法於租賃期內確認入賬。

(y) 僱員退休後福利

本集團就退休金及醫療福利參與各省市政府管轄的定額供款計劃。此等計劃供款在發生當期列於利潤表。

此外，本集團提供退休僱員的福利包括退休津貼、交通津貼、社交活動津貼以及其他福利。於資產負債表內就定額退休福利計劃確認的負債為資產負債表日退休後福利負債的現值減計劃資產的公允值，同時包括未確認精算損益及以前服務費用的調整。定額退休福利負債每年根據單位貸記法評估的方法計算。定額退休福利負債的現值是依據未來現金流出及與福利負債支付貨幣相同且到期日與相關的退休福利負債基本相近的政府債券的利率折算。因調整經驗或改變精算假設而產生的精算損益，超過計劃資產的10%與定額福利負債的10%兩者間較高者部份，按僱員的預計平均尚可工作年限平均計入利潤表。

以前服務費用直接記入利潤表，除非該等退休計劃變化需視乎僱員於特定期間（「受益期」）之剩餘服務而定。在此情況下，以前服務費用則在受益期內按直線法攤銷。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(z) Derivative financial instruments

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

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

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

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

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

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

(z) 金融衍生工具

金融衍生工具在發生時於資產負債表以公允價值確認，其後以公允價值重新計算。確認後公允價值變動的處理視乎該金融衍生工具是否為對沖工具，如是，則視乎其所對沖項目的性質而定。

本集團於訂立交易時就對沖工具與對沖項目之關係，以至其風險管理目標及執行多項對沖交易之策略作檔案記錄。本集團亦於訂立對沖交易時及按持續基準，記錄其對於該等用於對沖交易之衍生工具，是否高度有效地抵銷對沖項目公允價值或現金流量變動的評估。

若金融衍生工具不符合套期會計原則便會被視為買賣工具，其由公允價值轉變而產生的未實現損益均會在利潤表內立即予以確認。

若被界定為非常有效的公允價值套期，其公允價值的變動將在利潤表內與其相對應的資產或負債公允價值的變動一同反映。

若金融衍生工具符合套期會計原則，並且是針對可預期及很可能發生的交易的現金流量，其會計處理如下：

- (i) 被視為有效套期的金融衍生工具的公允價值變動會直接於儲備中確認。當預計的交易或固定的承諾確認為一項資產或負債時，以前與之相關的確認的儲備將包括在此資產或負債的成本。當套期預測交易影響淨收益或損失時，有關金融衍生工具的累積損益便會在同期間由儲備內轉至利潤表內確認。
- (ii) 無效部份的公允價值變動會立即於利潤表內予以確認。

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) 2. 重要會計政策摘要(續)

(z) Derivative financial instruments (continued)

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

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

(aa) Available-for-sale financial assets

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

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

(ab) Dividend distribution

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

(ac) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(z) 金融衍生工具(續)

當被對沖項目的剩餘期限超過12個月時，對沖衍生工具的全數公平值會被分類為非流動資產或負債，而當被對沖項目的剩餘期限少於12個月時，對沖衍生工具的全數公平值會被分類為流動資產或負債。買賣性質的衍生工具則分類為流動資產或負債。

當一對沖工具到期或出售時，或當一對沖不再符合套期會計處理方法時，所有於當日在儲備的累計利潤或虧損，可在其承諾或預計交易確認時方於利潤表確認。當承諾或預計交易不可能發生時，其累計利潤或虧損則需立即轉入利潤表中列支。

(aa) 可供出售金融資產

除附屬公司、聯營公司及合營公司外的非買賣用途的證券投資，分類為可供出售金融資產並在交易日確認。交易日指本集團承諾購入或出售該資產之日。可供出售金融資產初步按公允值加交易成本確認。本集團在每個資產負債表日評估金融資產的公允值，除減值損失外，所有盈虧會直接在其他綜合收益中反映。當有關投資已終止確認，連同以往直接在儲備確認的累計收益或損失，將會計入利潤表。

本集團在每個資產負債表日評估是否有客觀證據證明某項金融資產或某組金融資產經已減值。對於分類為可供出售的股權證券，在釐定相關的證券是否已經減值時，會考慮證券公允值有否大幅或長期跌至低於其成本值。若可供出售金融資產存在此等證據，相關的累計虧損(按收購成本與當時公允值的差額，減該金融資產之前在利潤表確認的任何減值虧損計算)自權益中剔除並在利潤表記賬。在利潤表確認的股權工具減值虧損不會透過利潤表撥回。

(ab) 股利

分配予本公司股東之股利於本公司股東批准該股利當期確認為本集團之負債。

(ac) 股本

普通股被定義為權益。與新發行股份或期權直接相關的增量成本扣稅後作為一項實收款項的抵減項於權益列示。

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3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

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

(i) Foreign currency risk

The Group operates its business in many countries and territories. The Group generates its revenue in different currencies, and its foreign currency liabilities at the end of the period are much higher than its foreign currency assets. The Group's major liability item (resulting from purchases and leases of aircraft) is mainly priced and settled in foreign currencies, primarily US dollars. The Group is exposed to currency risks from fluctuations in various foreign currency exchange rates against RMB.

RMB is not a freely convertible currency and is regulated by the PRC government. Limitation on foreign exchange transaction imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

In addition, fluctuations in exchange rates will affect the Group's future costs for purchases of aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports.

The Group entered into certain foreign exchange forward option contracts to manage part of these foreign currency risks. Details of foreign currency forward contracts are disclosed in Note 40(b) to the financial statements.

3. 金融風險管理

(a) 金融風險因素

本集團的活動受多種財務風險：市場風險（包括匯兌風險、公允價值利率風險、現金流量利率風險及航油價格風險）、信貸風險及流動資金風險。本集團的整體風險管理計劃專注於金融市場的難預測性，並尋求儘量減低對本集團財務表現的潛在不利影響。本集團在管理層認為必要時利用衍生金融工具對沖若干的風險。

風險管理由資金部（「集團資金部」）按照董事會批准的政策執行。集團資金部透過與集團營運單位的緊密合作，負責確定、評估和對沖財務風險。整體風險管理戰略，以及若干特定範疇，例如外匯風險、利率風險、信貸風險、衍生和非衍生金融工具的書面的使用政策等，均有董事會批准。

(i) 外匯風險

本集團的業務跨越多個國家和地區，取得的收入包含多種貨幣且本集團期末外幣負債遠大於外幣資產，本集團最主要的負債項目（源於購買或租賃飛機）大多是以美元等貨幣計價和結算的。本集團可能面臨多種外幣與人民幣匯率變動風險。

人民幣是受中國政府管制的非自由兌換貨幣。中國政府在外幣匯兌交易方面的限制可能導致未來匯率相比現行或歷史匯率波動較大。

此外，匯率的波動還將影響本集團未來飛機、航材、航油、起降費等來源於境外的採購成本。

本集團通過簽訂一定的外匯遠期期權合約以對沖此外匯風險。有關外匯遠期合約的詳細情況參見財務報表附註40(b)相關部份。

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3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Foreign currency risk (continued)

The following table details the Group's and the Company's exposure at the balance sheet date to major currency risk.

		Group 集團					
		2012 二零一二年			2011 二零一一年		
		USD 美元 RMB'000 人民幣千元	Euro 歐元 RMB'000 人民幣千元	JPY 日元 RMB'000 人民幣千元	USD 美元 RMB'000 人民幣千元	Euro 歐元 RMB'000 人民幣千元	JPY 日元 RMB'000 人民幣千元
Trade and other receivables	應收賬款及其他應收款	1,259,043	156,354	161,020	1,308,300	121,646	140,143
Restricted bank deposits and short-term bank deposits	限制性存款和短期銀行存款	16,082	9,818	39,724	16,145	9,302	24,637
Cash and cash equivalents	現金及現金等價物	372,387	38,175	30,451	520,976	19,753	5,425
Deposits relating to aircraft under operating leases	經營性租賃飛機押金	562,199	-	-	594,354	-	-
Trade and other payables	應付賬款及其他應付款	(248,604)	(166)	(3,355)	(448,593)	(278)	(2,754)
Obligations under finance leases	融資租賃負債	(18,751,982)	-	(667,351)	(17,891,918)	-	-
Borrowings	借款	(31,605,345)	-	(303,433)	(24,994,674)	-	-
Currency derivatives at notional value	衍生工具名義本金	364,559	-	-	289,841	-	-
Net balance sheet exposure	資產負債表淨值	(48,031,661)	204,181	(742,944)	(40,605,569)	150,423	167,451

		Company 公司					
		2012 二零一二年			2011 二零一一年		
		USD 美元 RMB'000 人民幣千元	Euro 歐元 RMB'000 人民幣千元	JPY 日元 RMB'000 人民幣千元	USD 美元 RMB'000 人民幣千元	Euro 歐元 RMB'000 人民幣千元	JPY 日元 RMB'000 人民幣千元
Trade and other receivables	應收賬款及其他應收款	1,133,769	60,826	161,020	1,040,821	5,422	133,706
Restricted bank deposits and short-term bank deposits	限制性存款和短期銀行存款	16,082	9,818	39,724	16,145	6,016	24,637
Cash and cash equivalents	現金及現金等價物	263,523	35,431	30,268	453,753	7,938	1,021
Deposits relating to aircraft under operating leases	經營性租賃飛機押金	251,411	-	-	262,420	-	-
Trade and other payables	應付賬款及其他應付款	(215,474)	-	(254)	(432,582)	-	-
Obligations under finance leases	融資租賃負債	(14,733,182)	-	(667,351)	(14,133,574)	-	-
Borrowings	借款	(25,176,398)	-	(303,433)	(18,587,048)	-	-
Currency derivatives at notional value	衍生工具名義本金	364,559	-	-	289,841	-	-
Net balance sheet exposure	資產負債表淨值	(38,095,710)	106,075	(740,026)	(31,090,224)	19,376	159,364

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3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Foreign currency risk (continued)

The following table indicates the approximate change in the Group's profit and loss and other components of consolidated equity in response to a 1% appreciation of the RMB against the following major currencies at the balance sheet date.

		Group 集團			
		2012 二零一二年		2011 二零一一年	
		Effect on profit and loss	Effect on other components of equity	Effect on profit and loss	Effect on other components of equity
		對損益的影響	對權益其他 部分的影響	對損益的影響	對權益其他 部分的影響
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
US dollars	美元	483,962	988	406,797	(222)
Euro	歐元	(2,042)	-	(1,504)	-
Japanese Yen	日元	7,429	-	(1,675)	-

		Company 公司			
		2012 二零一二年		2011 二零一一年	
		Effect on profit and loss	Effect on other components of equity	Effect on profit and loss	Effect on other components of equity
		對損益的影響	對權益其他 部分的影響	對損益的影響	對權益其他 部分的影響
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
US dollars	美元	384,603	988	311,644	(222)
Euro	歐元	(1,061)	-	(194)	-
Japanese Yen	日元	7,400	-	(1,594)	-

3. 金融風險管理(續)

(a) 金融風險因素(續)

(i) 外匯風險(續)

下表顯示於資產負債表日，倘人民幣對其他貨幣升值1%，對本集團和本公司的稅前損益及權益的其他組成部分的影響。

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3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Interest rate risk

The Group's interest-rate risk primarily arises from borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in Notes 34 and 40(a) to the financial statements.

To hedge against the variability in the cash flows arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates.

The following table details the interest rate profiles of the Group's and the Company's interest-bearing financial instruments at the balance sheet date.

3. 金融風險管理(續)

(a) 金融風險因素(續)

(ii) 利率風險

本集團的利率風險主要來自借款及融資租賃負債。按變動利率借入的借款令本集團承受現金流量利率風險。按固定利率借入的借款令本集團承受公允價值利率風險。本集團借款利率、償還條款以及利率掉期披露於財務報告的附註34和附註40(a)。

為了對沖由於市場利率變化所引起的現金流變動，本集團透過一定的利率掉期合約將浮動利率轉化為固定利率。

下表顯示了集團及公司在財務報告日的帶息金融工具的概況。

		Group		Company	
		集團	公司	集團	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Floating rate instruments	浮動利率工具				
Cash and cash equivalents	現金及現金等價物	2,503,079	3,852,681	611,890	847,544
Restricted bank deposits and short-term bank deposits	限制性存款和短期銀行存款	1,726,251	2,894,287	109,543	360,168
Borrowings	借款	(35,256,709)	(35,256,801)	(28,516,031)	(26,133,256)
Obligation under finance leases	融資租賃負債	(21,857,978)	(20,260,822)	(17,476,210)	(16,134,172)
		(52,885,357)	(48,770,655)	(45,270,808)	(41,059,716)
Interest rate swaps at notional amount	利率互換合約名義本金	5,598,774	4,075,758	5,598,774	4,075,758
		(47,286,583)	(44,694,897)	(39,672,034)	(36,983,958)

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3. FINANCIAL RISK MANAGEMENT (continued) 3. 金融風險管理(續)

(a) Financial risk factors (continued)

(a) 金融風險因素(續)

(ii) Interest rate risk (continued)

(ii) 利率風險(續)

	Group 集團		Company 公司	
	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Fixed rate instruments	固定利率工具		固定利率工具	
Borrowings	(10,479,409)	(6,517,792)	(6,907,100)	(4,455,859)
Interest rate swaps at notional amount	240,307	303,368	240,307	303,368
	(10,239,102)	(6,214,424)	(6,666,793)	(4,152,491)

The following table indicates the approximate change in the Group's profit and loss and other components of equity, taking into the consideration of the interest rate swap, if interest rate had been 25 basis points higher with all other variables held constant.

下表顯示了在其他變量保持穩定的情況下，並考慮利率互換影響後，若利率上升25個基準點對集團及公司的損益以及權益的其他組成部份的影響。

	2012 二零一二年		2011 二零一一年	
	Effect on profit and loss 對損益的影響 RMB'000 人民幣千元	Effect on other components of equity 對權益其他 部分的影響 RMB'000 人民幣千元	Effect on profit and loss 對損益的影響 RMB'000 人民幣千元	Effect on other components of equity 對權益其他 部分的影響 RMB'000 人民幣千元
Floating rate instruments	(122,532)	(13,997)	(118,952)	(10,189)

(iii) Fuel price risk

(iii) 航油價格風險

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense component for the Group. Aircraft fuel accounts for 36% of the Group's operating expenses (2011: 37%).

由於航油為本集團一項主要營運支出，因此本集團的業績容易受到航油價格波動所影響。航油支出佔集團營運支出的36%(二零一一年：37%)。

As at 31 December 2012, the Group had no open crude oil option contracts, and all the contracts signed in past years had been settled before 31 December 2012.

於二零一二年十二月三十一日，本集團不存在尚未到期的原油期權合約，且以前年度簽訂的原油期權合約已於二零一二年十二月三十一日全部到期。

For the year ended 31 December 2012, if fuel price had been 5% higher/lower with all other variables held constant (excluding the impact of crude oil option contracts), the Group's fuel cost would have been RMB1,494 million higher/lower.

於二零一二年十二月三十一日止年度，在其他變量保持不變的情況下(不包括原油期權的影響)，倘若平均航油價格上升/降低5%，本集團航油成本將上升/降低人民幣14.94億元。

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3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iv) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, deposits and derivative financial instruments with banks and financial institutions, as well as credit exposures to sales agents.

A significant portion of the Group's air tickets are sold by sales agents participating in the Billing and Settlements Plan ("BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB812 million as at 31 December 2012 (2011: approximately RMB756 million). The credit risk exposure to BSP and the remaining trade receivables are maintained by the Group on an on-going basis and the allowance for impairment of doubtful debts is within management's expectations.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other banks, which are highly rated by international credit rating companies. The Group also deposits cash and cash equivalents in an associate financial institution owned by its holding company (Note 47(c)(iii)). The management does not expect any loss to arise from non-performance by these banks and the financial institution.

Transactions in relation to derivative financial instruments are only carried out with financial institutions of high credit rating. The Group has policies that limit the amount of credit exposure to any one financial institution. Management does not expect any losses from non-performance by these banks.

3. 金融風險管理(續)

(a) 金融風險因素(續)

(iv) 信貸風險

本集團的信貸風險主要歸於現金及現金等價物、衍生金融工具、在銀行及其他金融機構的存款以及銷售代理人的信貸風險。

本集團的應收賬款中大部份為應收參與「開賬與結算計畫」(「BSP」)的代理人的款項，它是國際航協建立的供航空公司和代理人之間使用的銷售結算系統。於二零一二年十二月三十一日，本集團應收BSP代理人的款項約為人民幣8.12億元(二零一一年：人民幣7.56億元)。集團對於和BSP有關的信貸風險和其應收賬款持續維護，同時，管理層評估其壞賬減值準備的可能性，在必要時，適當地計提壞賬減值準備。

本集團在管理現金及現金等價物時，主要是將其存放於國有銀行及其他一些銀行，國際信用評級機構對這些銀行有很高的信用等級評價。同時，集團還將現金及現金等價物存放於其控股股東控制的金融財務機構(附註47(c)(iii))。管理層認為不會從這些銀行和金融機構中承擔任何不履約所造成的損失。

衍生金融工具交易只與信用等級評價較高的金融機構進行。在報告期內，並無信貸超出所定限額，而管理層亦不預期因此等對方任何不履約的行為而產生虧損。

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3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(v) Liquidity risk

The Group's primary cash requirements have been for day-to-day operations, additions of and upgrades to aircraft, engines and flight equipment and payments on related borrowings. The Group finances its working capital requirements through a combination of funds generated from operations, bonds and bank loans (both short and long term). The Group generally finances the acquisition of aircraft through long-term finance leases or bank loans.

The Group operates with a working capital deficit. As at 31 December 2012, the Group's net current liabilities amounted to RMB35,948 million (2011: RMB29,679 million). For the year ended 31 December 2012, the Group recorded a net cash inflow from operating activities of RMB12,617 million (2011: inflow RMB13,623 million), a net cash outflow from investing activities and financing activities of RMB13,963 million (2011: outflow RMB12,803 million), and a decrease in cash and cash equivalents of RMB1,349 million (2011: increase of RMB820 million).

The Directors of the Company believe that cash from operations and short and long term borrowings will be sufficient to meet the Group's operating cash flow. Due to the dynamic nature of the underlying businesses, the Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Directors of the Company believe that the Group has obtained sufficient general credit facilities from PRC banks for financing future capital commitments and for working capital purposes (see Note 2(a)).

3. 金融風險管理(續)

(a) 金融風險因素(續)

(v) 流動資金風險

本集團的主要現金需求用於日常運營，飛機、發動機及飛行設備的添置或改良及償還其相關貸款或負債。本集團通過營運業務及銀行短期及長期貸款所得的綜合資金來滿足其營運資金的需求。本集團通常以融資租賃或銀行貸款的方式來購買飛機。

本集團是在淨流動負債下經營，於二零一二年十二月三十一日，本集團淨流動負債為人民幣359.48億元(二零一一年：人民幣296.79億元)。於二零一二年十二月三十一日止年度，本集團錄得的經營活動現金淨流入約為人民幣126.17億元(二零一一年：流入人民幣136.23億元)，投資活動及融資活動的淨現金流出約為人民幣139.63億元(二零一一年：流出人民幣128.03億元)，現金及現金等價物減少約人民幣13.49億元(二零一一年：增加約人民幣8.20億元)。

本公司董事認為本集團將可通過營運及銀行短期及長期貸款取得足夠的營運資金。由於行業的性質多變，本集團透過保留已承諾的信用額以取得較靈活的籌資方法。本公司董事相信本集團已向中國境內銀行獲得充足的信貸額度，用以應付未來資本性開支及日常營運所需資金(附註2(a))。

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3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(v) Liquidity risk (continued)

The table below analyses the Group's and the Company's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

		Group 集團			
		Less than 1 year 一年以下 RMB'000 人民幣千元	Between 1 and 2 years 一至兩年內 RMB'000 人民幣千元	Between 2 and 5 years 兩至五年內 RMB'000 人民幣千元	Over 5 years 五年以上 RMB'000 人民幣千元
At 31 December 2012	二零一二年十二月三十一日				
Borrowings	借款	23,690,528	7,780,344	8,846,834	8,736,557
Derivative financial instruments	金融衍生工具	504	–	122,751	216,895
Obligations under finance leases	融資租賃負債	3,004,452	3,059,744	8,685,669	9,027,940
Trade and other payables	應付賬款及其他應付款	18,871,661	71,236	329,988	58,665
Provision for return condition checks for aircraft under operating lease	經營租賃飛機退租檢修 準備	734,205	818,199	1,381,893	864,465
Other long term liability	其他長期負債	26,500	26,988	76,610	79,629
Total	總額	46,327,850	11,756,511	19,443,745	18,984,151
At 31 December 2011	二零一一年十二月三十一日				
Borrowings	借款	19,129,172	8,959,738	10,053,089	6,255,055
Derivative financial instruments	金融衍生工具	1,099	1,987	110,487	219,411
Obligations under finance leases	融資租賃負債	2,790,844	2,846,797	7,836,047	8,448,826
Trade and other payables	應付賬款及其他應付款	18,650,034	71,410	148,515	67,210
Other long term liability	其他長期負債	115,645	117,963	324,703	350,095
Total	總額	40,686,794	11,997,895	18,472,841	15,340,597

3. 金融風險管理(續)

(a) 金融風險因素(續)

(v) 流動資金風險(續)

下表顯示本集團和本公司的金融負債及以淨額基準結算的金融負債，按照相關的到期組別，根據由資產負債表日至合約到期日的剩餘期間進行分析。在表內披露的金額為合約性未貼現的現金流量。由於貼現的影響不大，故此在12個月內到期的結餘相等於其賬面值。

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3. FINANCIAL RISK MANAGEMENT (continued)

3. 金融風險管理(續)

(a) Financial risk factors (continued)

(a) 金融風險因素(續)

(v) Liquidity risk (continued)

(v) 流動資金風險(續)

		Company 公司			
		Less than 1 year 一年以下 RMB'000 人民幣千元	Between 1 and 2 years 一至兩年內 RMB'000 人民幣千元	Between 2 and 5 years 兩至五年內 RMB'000 人民幣千元	Over 5 years 五年以上 RMB'000 人民幣千元
At 31 December 2012	二零一二年十二月三十一日				
Borrowings	借款	21,049,778	4,274,259	6,251,534	6,315,543
Derivative financial Instruments	金融衍生工具	504	-	122,751	216,895
Obligations under finance leases	融資租賃負債	2,306,694	2,348,170	6,776,545	7,707,677
Trade and other payables	應付賬款及其他應付款	18,383,799	71,236	131,913	58,665
Provision for return condition checks for aircraft under operating lease	經營租賃飛機退租檢修 準備	88,081	586,490	647,745	440,318
Other long term liability	其他長期負債	13,852	14,101	40,694	46,286
Total	總額	41,842,708	7,294,256	13,971,182	14,785,384
At 31 December 2011	二零一一年十二月三十一日				
Borrowings	借款	15,480,104	7,656,356	4,803,315	3,630,257
Derivative financial Instruments	金融衍生工具	1,099	1,987	110,487	219,411
Obligations under finance leases	融資租賃負債	2,278,734	2,298,934	6,190,003	6,690,780
Trade and other payables	應付賬款及其他應付款	13,905,802	71,410	80,041	67,210
Other long term liability	其他長期負債	88,004	88,784	239,055	258,395
Total	總額	31,763,743	10,117,471	11,422,901	10,866,053

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3. FINANCIAL RISK MANAGEMENT (continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. The debt ratio at 31 December 2012 and 2011 were as follows:

		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Total liabilities	總負債	99,265,166	92,933,774
Total assets	總資產	123,818,563	114,738,881
Debt ratio	資產負債率	0.80	0.81

(c) Fair value estimation of financial assets and liabilities

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. 金融風險管理(續)

(b) 資本風險管理

本集團的資本管理政策，是保障集團能繼續營運，以為股東提供回報和為其他權益持有者提供利益，同時維持最佳的資本結構以減低資本成本。

為了維持或調整資本結構，本集團可能會調整支付予股東的股息數額、發行新股或出售資產以減低債務。

本集團利用資產負債率監察其資本，此比率按照總負債除以總資產計算。於二零一二年及二零一一年十二月三十一日，資產負債率如下：

(c) 金融資產和金融負債的公允值評估

下表分析了通過公允價值計量架構披露金融工具的公允價值。不同層級的定義如下：

- 相同資產或負債在活躍市場的報價(未經調整)(第1層)。
- 除了第1層所包括的報價外，該資產和負債的可觀察的其他輸入，可為直接(即例如價格)或間接(即源自價格)(第2層)。
- 資產和負債並非依據可觀察市場數據的輸入(即非可觀察輸入)(第3層)。

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3. FINANCIAL RISK MANAGEMENT (continued)

3. 金融風險管理(續)

(c) Fair value estimation of financial assets and liabilities (continued)

(c) 金融資產和金融負債的公允值評估(續)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012 and 31 December 2011.

下表顯示本集團資產和負債按二零一二年及二零一一年十二月三十一日計量的公允價值。

		Group 集團			
		Level 1 第一層	Level 2 第二層	Level 3 第三層	Total 總計
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
At 31 December 2012	二零一二年十二月三十一日				
Assets	資產				
Derivatives financial instruments	金融衍生工具				
– Forward foreign exchange contracts (Note 40(b))	– 外匯遠期合約 (附註40(b))	–	18,074	–	18,074
Available-for-sale financial assets	可供出售金融資產	1,955	–	232,735	234,690
Total	總額	1,955	18,074	232,735	252,764
Liabilities	負債				
Derivatives financial instruments	金融衍生工具				
– Interest rate swaps (Note 40(a))	– 利率互換合約(附註40(a))	–	295,005	–	295,005
– Forward foreign exchange contracts (Note 40(b))	– 外匯遠期合約 (附註40(b))	–	45,146	–	45,146
Total	總額	–	340,151	–	340,151

		Group 集團			
		Level 1 第一層	Level 2 第二層	Level 3 第三層	Total 總計
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
At 31 December 2011	二零一一年十二月三十一日				
Assets	資產				
Derivatives financial instruments	金融衍生工具				
– Interest rate swaps (Note 40(a))	– 利率互換合約(附註40(a))	–	4,279	–	4,279
– Forward foreign exchange contracts (Note 40(b))	– 外匯遠期合約 (附註40(b))	–	86	–	86
Available-for-sale financial assets	可供出售金融資產	2,344	–	238,036	240,380
Total	總額	2,344	4,365	238,036	244,745
Liabilities	負債				
Derivatives financial instruments	金融衍生工具				
– Interest rate swaps (Note 40(a))	– 利率互換合約(附註40(a))	–	267,909	–	267,909
– Forward foreign exchange contracts (Note 40(b))	– 外匯遠期合約 (附註40(b))	–	65,075	–	65,075
Total	總額	–	332,984	–	332,984

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3. FINANCIAL RISK MANAGEMENT (continued)

3. 金融風險管理(續)

(c) Fair value estimation of financial assets and liabilities (continued)

(c) 金融資產和金融負債的公允值評估(續)

		Company 公司			
		Level 1 第一層	Level 2 第二層	Level 3 第三層	Total 總計
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
As at 31 December 2012	二零一二年十二月三十一日				
Assets	資產				
Derivatives financial instruments	金融衍生工具				
– Forward foreign exchange contracts (Note 40(b))	– 外匯遠期合約 (附註40(b))	–	18,074	–	18,074
Available-for-sale financial assets	可供出售金融資產	–	–	216,256	216,256
Total	總額	–	18,074	216,256	234,330
Liabilities	負債				
Derivatives financial instruments	金融衍生工具				
– Interest rate swaps (Note 40(a))	– 利率互換合約(附註40(a))	–	295,005	–	295,005
– Forward foreign exchange contracts (Note 40(b))	– 外匯遠期合約 (附註40(b))	–	45,146	–	45,146
Total	總額	–	340,151	–	340,151

		Company 公司			
		Level 1 第一層	Level 2 第二層	Level 3 第三層	Total 總計
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
As at 31 December 2011	二零一一年十二月三十一日				
Assets	資產				
Derivatives financial instruments	金融衍生工具				
– Interest rate swaps (Note 40(a))	– 利率互換合約(附註40(a))	–	4,279	–	4,279
– Forward foreign exchange contracts (Note 40(b))	– 外匯遠期合約 (附註40(b))	–	86	–	86
Available-for-sale financial assets	可供出售金融資產	–	–	221,557	221,557
Total	總額	–	4,365	221,557	225,922
Liabilities	負債				
Derivatives financial instruments	金融衍生工具				
– Interest rate swaps (Note 40(a))	– 利率互換合約(附註40(a))	–	267,909	–	267,909
– Forward foreign exchange contracts (Note 40(b))	– 外匯遠期合約 (附註40(b))	–	65,075	–	65,075
Total	總額	–	332,984	–	332,984

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3. FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation of financial assets and liabilities (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, these instruments are included in level 2 of the above table.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

3. 金融風險管理(續)

(c) 金融資產和金融負債的公允價值評估(續)

在活躍市場買賣的金融工具的公允價值根據資產負債表日的市場報價列賬。當報價可即時和定期從證券交易所、交易商、經紀、業內人士、定價服務者或監管代理獲得，而該等報價代表按公平交易基準進行的實際和常規市場交易時，該市場被視為活躍。本集團持有的金融資產的市場報價為當時買方報價。

沒有在活躍市場買賣的金融工具(例如場外衍生工具)的公允價值利用估值技術釐定。估值技術儘量利用可觀察市場數據(如有)，儘量少依賴主體的特定估計。如計算一金融工具的公允價值所需的所有重大輸入為可觀察數據，則該金融工具列入第2層。

如一項或多項重大輸入並非根據可觀察市場數據，則該金融工具列入第3層。

用以估值金融工具的特定估值技術包括：

- 同類型工具的市場報價或交易商報價。
- 利率掉期的公允價值根據可觀察收益率曲線，按估計未來現金流量的現值計算。
- 遠期外匯合同的公允價值利用資產負債表日期的遠期匯率釐定，而所得價值折算至現值。
- 其他技術，例如折算現金流量分析，用以釐定其餘金融工具的公允價值。

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2(e) to the financial statements. Unused tickets are recognised in traffic revenues based on current estimates. Management annually evaluates the balance in the SIAC and records any adjustments, which can be material, in the period the evaluation is completed.

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

(b) Frequent flyer programme

The Group operates frequent flyer programmes that provide travel awards to programme members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognised when the miles have been redeemed or have expired. The deferment of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilisation of these benefits and estimated fair values of the unredeemed miles. Different judgements or estimates could significantly affect the estimated provision for frequent flyer programmes and the results of operations.

(c) Provision for costs of return condition checks for aircraft under operating leases

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

4. 重要會計估計及判斷

編製財務報表時所採用的估計和判斷會被根據過往經驗和其他因素持續進行評估，包括在有關情況下相信對未來事件的合理預測。本集團對未來作出估計和假設。會計估計如其定義，很少會與其實際結果相同。很大機會導致下個財政年度的資產和負債的賬面值作出重大調整的估計和假設討論如下：

(a) 收入的確認

本集團根據附註2(e)所述的會計政策確認收入。未被使用的客票於管理層認為承運責任已消除時確認為收入。管理層定期對預售票款進行評估，由評估產生的任何可能重大的調整，均反映在評估完成當期的利潤表中。

此等調整是由於對收入交易的估算、未被使用的客票確認為收入的時間及相關銷售價格的估計不同而產生不同的判斷結果，這受各種因素的影響，包括複雜的價格結構及承運人之間的互運協議，均會影響收入的確認時間。

(b) 常旅客計劃

本公司的常旅客計劃根據會員累計的里程給予對應的獎勵積分。獎勵積分被兌換或者失效之前，與獎勵積分相關的承運票款收入部分會被遞延。遞延收入乃根據歷史積分的兌換情況估計未來積分的兌換率及未兌換里程的公允價值而釐定，不同的判斷或估計對預計的常旅客計劃撥備及當期損益有重大影響。

(c) 經營性租賃飛機的退租檢修準備

經營性租賃飛機的退租檢修準備是按退租時所需進行的指定檢修的估計費用計提。該等估計費用需要對預計的飛行小時、飛行循環、大修時間間隔進行估計。這些估計在相當程度上是根據過去相同或類似飛機型號的退租經驗、實際發生的大修費用，以及飛機使用狀況的歷史數據進行的。不同的判斷或估計對預計的退租檢修準備有重大影響。

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued) 4. 重要會計估計及判斷(續)

(d) Retirement benefits

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognised over the employees' service period by utilising various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(y) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is disclosed in Note 38 to the financial statements.

(e) Deferred income tax

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

(f) Provision for flight equipment spare parts

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realisable value. The net realisable value is estimated based on current market condition, historical experience and Company's future operation plan for the aircraft and related spare parts. The net realisable value may be adjusted significantly due to the change of market condition and the future plan for the aircraft and related spare parts.

(d) 退休福利

本集團實施及保持的定額退休福利計劃包括為退休僱員提供交通津貼、社交活動津貼以及其他福利。如附註2(y)所示，提供的上述定額退休福利計劃下的福利費用根據各種精算假設按單位貸記法計算，並在僱員的服務期內確認。這些假設包括，但不限於折現率、人均福利的年增長率及僱員流失率等。折現率是在管理層對當地高品質企業債券審閱的基礎上確定的，人均福利的年增長率取決於當地經濟狀況，僱員流失率是根據本集團歷史趨勢確定的。關於僱員退休福利計劃的其他情況見附註38。

(e) 遞延稅項

根據財務報表附註2(j)所述的會計政策，在考慮確認遞延所得稅資產的金額時，本集團會考慮預計未來應課稅溢利及可行的持續稅項計劃策略。在有證據顯示本集團的預計未來應課稅溢利及適用的稅項計劃策略的利益有變時，或在現行稅法的改變對本集團的稅務虧損結餘沖銷未來應課稅溢利的可用性有變時，本集團會調整已確認的遞延所得稅淨資產及所得稅費用。

(f) 飛機設備零件的跌價準備

飛機設備零件的跌價準備是根據賬面值和可實現淨值的差異計提。可實現淨值是根據當前市場情況、歷史經驗和本公司對飛機和相關設備零件的未來運營計劃估計而確定，且可能由於市場情況和飛機及相關設備零件的未來計劃的變動而大幅調整。

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued) 4. 重要會計估計及判斷(續)

(g) Depreciation of property, plant and equipment

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

Except for components related to airframe and engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(h) Estimated impairment of property, plant and equipment and intangible assets

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2(k) and Note 2(m) to the financial statements. The recoverable amounts of cash generating units have been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometres yield level, load factor, aircraft utilisation rate and discount rates, etc.

(g) 物業、機器及設備的折舊

對與自購及融資租賃飛機及發動機大修相關的替換件，本集團根據預計的大修費用以及大修之間的時間間隔、飛行小時或飛行循環計提折舊，該等估計是根據以往相同或相似型號的飛機及發動機的飛行及大修歷史經驗進行的。不同的估計可能會影響其折舊金額進而影響當期損益。

除機身和發動機相關的大修費用外，其他物業、機器及設備在考慮其估計殘值後按預計使用年限以直線法計提折舊。可使用年限是本集團根據以往同類資產的經驗並結合預期的技術改變確定。本集團定期審閱資產的預計可使用年限，以確定在任何報告期間折舊費用的準確記錄。如果估計發生重大變化，集團會對未來期間的折舊費用進行調整。

(h) 預計物業、機器及設備和無形資產減值

根據財務報表附註2(k)以及附註2(m)所述的會計政策，本集團須測試物業、機器及設備及無形資產是否出現減值。現金產生單元的可收回金額按照公允價值扣除銷售成本以及使用價值計算而釐定。該使用價值是根據經管理層批准的財務預算及相關假設，例如客運公里收入水準、載運率、飛機利用率及貼現率等，計算所得。

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5. REVENUES

The Group is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services.

5. 收入

本集團主要經營民航業務，包括客運、貨運、郵運、旅遊業務及其他延伸運輸服務。

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Traffic revenues	運輸收入	79,444,443	76,513,636
– Passenger	– 客運	71,418,995	68,433,970
– Cargo and mail	– 貨運及郵運	8,025,448	8,079,666
Tour operation income	旅遊服務收入	2,111,051	2,115,520
Ground service income	地勤服務收入	1,959,107	2,104,604
Cargo handling income	貨物處理收入	160,328	278,724
Commission income	佣金收入	96,418	95,426
Others	其他	1,481,970	1,295,220
		85,253,317	82,403,130

Notes:

Before 1 January 2012, the major elements of the Group's revenues were subject to business tax levied at rates of 3% or 5%. The Group's revenues from the provision of international transportation services are exempted from business tax from 1 January 2010, pursuant to the notice of exemption of business tax on the provision of international transportation services (Cai Shui [2010] No. 8) jointly issued by the Ministry of Finance ("MoF") and the State Administration of Taxation ("SAT").

Pursuant to the notice of the pilot programme for the transformation of transportation and certain modern service industries in Shanghai from business tax ("BT") to Value Added Tax ("VAT") (Cai Shui [2011] No. 111) issued by MoF and SAT, traffic revenue of the Company and subsidiaries located in Shanghai and other revenues (including ground service income, cargo handling income, commission income and part of others) generated in Shanghai are subjected to VAT levied at rates of 11% or 6% from 1 January 2012, instead of BT.

Pursuant to the notice of the pilot programme for the transformation of transportation and certain modern service industries from BT to VAT in Beijing and other eight provinces/cities (Cai Shui [2012] No.71) issued by MoF and SAT, traffic revenue and other revenues (including ground service income, cargo handling income, commission income and part of others) generated by subsidiaries located in Beijing and other eight provinces/cities scoped in the notice are subjected to VAT levied at rates of 11% or 6% with different effective date ranging from 1 September 2012 to 1 December 2012.

The VAT input generated from purchase of fuel, take-off and landing services, food and beverages, property, plant and equipment, and certain BT paid by the branches of the Company outside above notice scope can be used to deduct the VAT output generated from taxable revenue.

The traffic revenue and other revenue generated in other locations of China will continue to be subject to business tax at rates of 3% or 5%.

As a result of the implementation of aforementioned reform from BT to VAT (i.e. the relevant portion of the Group's operations have been changed to VAT instead of BT as they were in prior year), revenue of the Group for the year ended 31 December 2012 decreased by RMB2,954 million and operating expenses of the Group decreased by RMB3,132 million resulting in an increase in profit before income tax of RMB178 million for the year ended 31 December 2012.

The business tax incurred and offset against the above Group's revenues for the year ended 31 December 2012 amounted to approximately RMB670 million (2011: approximately RMB1,803 million).

註釋:

在二零一二年一月一日前，本集團絕大部分的收入需按3%或5%計繳營業稅。根據中華人民共和國財政部、國家稅務總局發出的《財政部、國家稅務總局關於國際運輸勞務免徵營業稅的通知》(財稅[2010]8號)的規定，自二零一零年一月一日起，本集團提供的國際運輸勞務免徵營業稅。

根據中華人民共和國財政部、國家稅務總局發出的《關於在上海市開展交通運輸業和部分現代服務業營業稅改徵增值稅試點的通知》(財稅[2011]111號)，自二零一二年一月一日起，本公司及上海地區的子公司所提供之運輸服務收入和於上海提供的其他服務收入(包括地面服務收入、貨物處理收入、佣金收入及部分其他收入)將改按11%或6%計繳增值稅。

根據中華人民共和國財政部、國家稅務總局《關於在北京等8省市開展交通運輸業和部分現代服務業營業稅改徵增值稅試點的通知》(財稅[2012]71號)，本集團於北京和其他試點8省市的子公司提供的運輸服務收入及本集團於北京和其他試點的8省市提供的其他服務收入(包括地面服務收入、貨物處理收入、佣金收入及部分其他收入)將按11%或6%計繳增值稅。營業額改徵增值稅於二零一二年九月一日至二零一二年十二月一日期間內根據上述通知的規定分別於北京和其他試點8省市生效。

購買航空油料、起降服務、餐食和物業、機器及設備產生的增值稅進項稅額，及本公司不屬於上述試點地區範圍的分公司繳納的營業稅可用以抵扣應稅收入產生的增值稅銷項稅額。

本集團於中國其他地區提供的運輸服務收入和其他服務收入仍需按3%或5%計繳營業稅。

由於實施上述從營業稅改徵增值稅改革(即本集團相關業務已經從以往年度繳納營業稅改為繳納增值稅)，本集團截至二零一二年十二月三十一日止年度，收入減少約人民幣29.54億元，經營開支減少約人民幣31.32億元，稅前利潤增加約人民幣1.78億元。

截至二零一二年十二月三十一日止年度，已抵銷上述本集團收入的營業稅約為人民幣6.70億元(二零一一年：約人民幣18.03億元)。

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6. OTHER OPERATING INCOME

6. 其他營業收入

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Other operating income (Note)	其他營業收入 (註釋)		
– Government subsidies	– 政府補貼	1,719,626	1,061,451

Note:

Government subsidies represent (i) subsidies of RMB353 million (2011: RMB78 million) based on certain amount of tax paid granted by governments to the Group; and (ii) subsidies granted by various local governments to encourage the Group to operate certain routes to cities where these governments are located.

There are no unfulfilled conditions and other contingencies related to subsidies that have been recognised for the year ended 31 December 2012.

註釋：

政府補貼主要為：(i) 各地方政府給於本集團的稅收返還，共計人民幣3.53億元(二零一一年：人民幣0.78億元)；(ii) 各地方政府為鼓勵本集團經營當地航線而給予的補貼。

截至二零一二年十二月三十一日止年度，本集團並沒有與已確認的政府補貼相關的未滿足的條件及其他或有事項。

7. SEGMENT INFORMATION

7. 分部資料

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

The Group has one reportable operating segment, reported as "airline transportation operations", which comprises the provision of passenger, cargo, mail delivery, ground service and cargo handling income.

Other services including primarily tour operations, air catering and other miscellaneous services are not included within the airline transportation operations segment, as their internal reports are separately provided to the CODM. The results of these operations are included in the "other segments" column.

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

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the "PRC Accounting Standards"), which differ from IFRS in certain aspects. The amount of each material reconciling items from the Group's reportable segment revenue and profit or loss, arising from different accounting policies are set out in Note 7(c) below.

(a) 主要營運決策者(總經理辦公室)透過審閱本集團的內部報告以分析其業績表現及分配資源。

本集團存在一個業務分部，即「航空業務分部」，包括客運、貨運、郵運、地面服務及貨物處理收入。

對於其他服務，包括旅遊服務、航空培訓、航空餐食以及其他各項業務，由於未包括在向主要營運決策者匯報的航空業務分部報告中，因此未將該等業務納入航空業務報告分部。該等業務的業績併入「其他業務分部」。

分部之間的交易按與無關聯第三方交易相若的商業條款及條件進行。

根據國際財務報告準則第8號，分部資料披露的準備方式應與本集團的主要經營決策者使用的資料一致。本集團的主要經營決策者以按中國企業會計準則所編製的財務業績來監控各報告分部的業績、資產及負債，其在某些方面與國際財務報告準則有所不同。每項因本集團的不同會計政策所編製的報告分部收入及稅前利潤的重大調節項目已列示於附註7(c)。

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7. SEGMENT INFORMATION (continued)

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

The segment results for the year ended 31 December 2012 are as follows:

		Airline transportation operations 航空業務分部 RMB'000 人民幣千元	Other segments 其他業務分部 RMB'000 人民幣千元	Elimination 分部間抵銷 RMB'000 人民幣千元	Unallocated* 未分配項目* RMB'000 人民幣千元	Total 合計 RMB'000 人民幣千元
Reportable segment revenue from external customers	對外客戶的報告分部收入	83,127,233	2,442,017	-	-	85,569,250
Inter-segment sales	分部間抵銷	-	261,631	(261,631)	-	-
Reportable segment revenue	報告分部收入	83,127,233	2,703,648	(261,631)	-	85,569,250
Reportable segment profit before income tax	報告分部稅前利潤	3,176,660	104,938	-	234,058	3,515,656
Other segment information	其他分部資料					
Depreciation and amortisation	折舊和攤銷費用	7,892,045	114,430	-	-	8,006,475
Capital expenditure	資本性支出	18,490,801	116,212	-	-	18,607,013

7. 分部資料(續)

(a) 主要營運決策者(總經理辦公室)透過審閱本集團的內部報告以分析其業績表現及分配資源。(續)

截至二零一二年十二月三十一日止年度的分部業績如下列示：

The segment results for the year ended 31 December 2011 are as follows:

截至二零一一年十二月三十一日止年度的分部業績如下列示：

		Airline transportation operations 航空業務分部 RMB'000 人民幣千元	Other segments 其他業務分部 RMB'000 人民幣千元	Elimination 分部間抵銷 RMB'000 人民幣千元	Unallocated* 未分配項目* RMB'000 人民幣千元	Total 合計 RMB'000 人民幣千元
Reportable segment revenue from external customers	對外客戶的報告分部收入	81,597,560	2,376,945	-	-	83,974,505
Inter-segment sales	分部間抵銷	-	201,989	(201,989)	-	-
Reportable segment revenue	報告分部收入	81,597,560	2,578,934	(201,989)	-	83,974,505
Reportable segment profit before income tax	報告分部稅前利潤	4,997,606	41,986	-	128,122	5,167,714
Other segment information	其他分部資料					
Depreciation and amortisation	折舊和攤銷費用	7,282,227	88,500	-	-	7,370,727
Impairment losses	資產減值損失	799,105	259	-	-	799,364
Capital expenditure	資本性支出	18,159,708	91,985	-	-	18,251,693

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7. SEGMENT INFORMATION (continued)

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

The segment assets and liabilities as at 31 December 2012 and 31 December 2011 are as follows:

		Airline transportation operations 航空業務分部 RMB'000 人民幣千元	Other segments 其他業務分部 RMB'000 人民幣千元	Elimination 分部間抵銷 RMB'000 人民幣千元	Unallocated* 未分配項目* RMB'000 人民幣千元	Total 合計 RMB'000 人民幣千元
At 31 December 2012	於二零一二年十二月三十一日					
Reportable segment assets	報告分部資產	116,461,666	4,706,382	(1,691,890)	1,486,321	120,962,479
Reportable segment liabilities	報告分部負債	94,047,698	3,564,029	(1,691,890)	-	95,919,837
At 31 December 2011	於二零一一年十二月三十一日					
Reportable segment assets	報告分部資產	106,818,323	4,658,780	(763,176)	1,501,225	112,215,152
Reportable segment liabilities	報告分部負債	87,272,414	3,560,501	(763,176)	-	90,069,739

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

7. 分部資料(續)

(a) 主要營運決策者(總經理辦公室)透過審閱本集團的內部報告以分析其業績表現及分配資源。(續)

於二零一二年十二月三十一日和二零一一年十二月三十一日的分部資產和負債列示如下：

* 未分配資產主要包括投資於聯營公司、合營公司及可供出售金融資產。未分配業績主要包括攤佔聯營公司、合營公司業績以及來自可供出售金融資產的收益。

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

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

- (1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan (collectively known as "Regional")) is classified as domestic operations. Traffic revenue generated from international routes (excluding regional routes) is classified as international operations.

(b) 本集團之業務分部於三個主要的地理區域經營，儘管其管理是全球性的。

本集團分地區分佈之收入分析如下：

- (1) 於中國境內(不包括中國香港特別行政區(「香港」)、中國澳門特別行政區(「澳門」)及台灣地區(「台灣」))，以下統稱「港澳台地區」提供服務所賺取的運輸收入屬於國內業務收入。運營國際航線(不包括地區航線)所賺取的運輸收入屬於國際業務收入。

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7. SEGMENT INFORMATION (continued)

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

- (2) Revenue from ticket handling services, ground services, cargo handling service and other miscellaneous services are classified on the basis of where the services are performed.

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	境內(中國·不包括港澳台地區)	57,612,675	57,675,579
Regional (Hong Kong, Macau and Taiwan)	港澳台地區	3,704,064	3,771,339
International	國際	24,252,511	22,527,587
Total	合計	85,569,250	83,974,505

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Majority of the Group's other assets are also located in the PRC. Since the Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities by geography and hence segment assets and capital expenditure by geography have not been presented.

本集團主要收入來源於飛機資產，此等飛機均註冊於中國。本集團的其他資產也主要分佈於中國。由於本集團之飛機可在不同航線中自由使用，沒有將此等資產及相關負債按地區合理分配的基礎，因此並未按照地區來披露資產及資本性支出。

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

- (c) 報告分部收入、分部利潤、分部資產及分部負債與合併財務報表列示之合併數據之差異調節。

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Revenue	收入		
Reportable segment revenue	報告分部收入總額	85,569,250	83,974,505
– Reclassification of business tax and expired sales in advance of carriage	– 營業稅及逾期預售票款結轉收入的重分類 (i)	(315,933)	(1,571,375)
Consolidated revenue	合併收入	85,253,317	82,403,130

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7. SEGMENT INFORMATION (continued)

7. 分部資料(續)

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

(c) 報告分部收入、分部利潤、分部資產及分部負債與合併財務報表列示之合併數據之差異調節。(續)

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
	Note 附註		
Profit before income tax	稅前利潤		
Reportable segment profit	報告分部稅前利潤	3,515,656	5,167,714
– Difference in depreciation charges for aircraft and engines due to different depreciation lives	– 由於可使用年限不同導致飛機及發動機折舊的差異 (ii)	(21,958)	(9,288)
– Provision for post-retirement benefits	– 退休後福利的準備 (iii)	(401,901)	(326,145)
– Others	– 其他	(79,393)	8,420
Consolidated profit before income tax	合併稅前利潤	3,012,404	4,840,701

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
	Note 附註		
Assets	資產		
Reportable segment assets	報告分部資產總額	120,962,479	112,215,152
– Difference in depreciation charges for aircraft and engines due to different depreciation lives	– 由於可使用年限不同導致飛機及發動機折舊的差異 (ii)	52,901	74,859
– Difference in intangible asset (goodwill) arising from the acquisition of Shanghai Airlines	– 吸收合併上航股份產生的無形資產(商譽) 差異 (iv)	2,760,665	2,760,665
– Others	– 其他	42,518	(311,795)
Consolidated total assets	合併資產總額	123,818,563	114,738,881

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7. SEGMENT INFORMATION (continued)

7. 分部資料(續)

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

(c) 報告分部收入、分部利潤、分部資產及分部負債與合併財務報表列示之合併數據之差異調節。(續)

		Note 附註	Group 集團	
			2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Liabilities	負債			
Reportable segment liabilities	分部負債總額		95,919,837	90,069,739
– Provision for post-retirement benefits	– 退休後福利的準備	(iii)	3,345,329	2,943,428
– Others	– 其他		–	(79,393)
Consolidated total liabilities	合併負債總額		99,265,166	92,933,774

Notes:

- (i) The difference represents the different classification of business tax and expired sales in advance of carriage under PRC Accounting Standards and IFRS.
- (ii) The difference is attributable to the differences in the useful lives and residual values of aircraft and engines adopted for depreciation purpose in prior years under PRC Accounting Standards and IFRS. Despite the depreciation policies of these assets have been unified under IFRS and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which results in the differences in the carrying amounts and related depreciation changes under IFRS and PRC Accounting Standards.
- (iii) In accordance with the PRC Accounting Standards, certain employees' post-retirement benefits are recognised upon payment. Under IFRS, such post-retirement benefits under defined benefit schemes are required to be recognised over the employees' service period using projected unit credit method.
- (iv) The determination of the fair values of the acquisition costs and identifiable assets and liabilities of Shanghai Airlines acquired is different under IFRS and the PRC Accounting Standards, which results in difference in the intangibles/goodwill recognised arising from the acquisition.

註釋:

- (i) 該差異為營業稅金及逾期預售票款在中國企業會計準則與國際財務報告準則下的分類差異。
- (ii) 該差異為飛機、發動機及高周件於以往年度在中國企業會計準則下與國際財務報告準則下的折舊年限以及殘值不同而產生的差異。儘管近年來，該等資產的折舊政策在中國企業會計準則與國際企業會計準則下已統一，但由於上述更改為會計估計變更並採用未來適用法處理，因此該等資產的賬面價值以及相關的折舊在中國企業會計準則與國際財務報告準則下仍存在差異。
- (iii) 根據中國企業會計準則，員工退休後福利於實際付款時入賬。根據國際財務報告準則，被劃定為定額福利計劃下的員工退休後福利需在員工服務年內以單位貸記法作出預提。
- (iv) 收購上航股份的合併成本及可辨認資產與負債的公允價值於中國企業會計準則與國際會計準則下的金額不同，因此所確認的無形資產/商譽的金額不同。

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8. GAIN ON FAIR VALUE MOVEMENTS OF DERIVATIVES FINANCIAL INSTRUMENTS 8. 衍生工具公允價值變動收益

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Gain arising from fair value movements of derivatives financial instruments	衍生工具公允價值變動收益		
– Interest rate swap and forward foreign exchange contracts (Note 40(a) & (b))	– 利率互換和外匯遠期合約 (附註40(a) & (b))	15,755	19,541
– Crude oil option contracts	– 原油期權合約	9,076	67,310
		24,831	86,851

9. WAGES, SALARIES AND BENEFITS 9. 工資、薪金及福利

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Wages, salaries, bonus and allowances	工資、薪金、花紅及補貼	7,007,883	5,992,672
Employee welfare and benefits	僱員福利	428,791	335,464
Defined contribution retirement schemes (Note 38(a))	定額退休金計劃(附註38(a))	1,262,017	1,142,167
Post-retirement benefits (Note 38(b))	僱員退休後福利費用(附註38(b))	581,775	478,502
Staff housing fund (Note 39(a))	員工住房基金(附註39(a))	607,336	544,674
Staff housing allowance (Note 39(b))	員工住房補貼(附註39(b))	171,241	171,375
		10,059,043	8,664,854

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9. WAGES, SALARIES AND BENEFITS (continued) 9. 工資、薪金及福利(續)

(a) Emoluments of directors and supervisors

Details of the emoluments paid to the Company's directors and supervisors are as follows:

(a) 董事及監事的酬金

支付給公司董事及監事的酬金包括下列各項：

		2012 二零一二年		
		Salaries and Allowance 薪金及補貼 RMB'000 人民幣千元	Bonus 花紅 RMB'000 人民幣千元	Total 總額 RMB'000 人民幣千元
Executive Directors	執行董事			
Liu Shaoyong*	劉紹勇*	-	-	-
Ma Xulun	馬須倫	697	-	697
Xu Zhao*	徐昭*	-	-	-
Gu Jiadan* ^{§****}	顧佳丹* ^{§****}	-	-	-
Li Yangmin	李養民	625	-	625
Tang Bing***	唐兵***	592	-	592
Luo Zhuping	羅祝平	402	-	402
Independent non-executive Directors	獨立非執行董事			
Liu Keya	劉克涯	97	-	97
Wu Xiaogen	吳曉根	-	-	-
Ji Weidong	季衛東	120	-	120
Shao Ruiqing	邵瑞慶	120	-	120
Supervisors	監事			
Yu Faming*	于法鳴*	-	-	-
Xi Sheng* ^{§****}	席晟* ^{§****}	-	-	-
Liu Jiashun	劉家順	-	-	-
Feng Jinxiong	馮金雄	396	-	396
Yan Taisheng	燕泰勝	344	-	344
Total	合計	3,393	-	3,393

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9. WAGES, SALARIES AND BENEFITS (continued) 9. 工資、薪金及福利(續)

(a) Emoluments of directors and supervisors (continued)

(a) 董事及監事的酬金(續)

		2011 二零一一年		
		Salaries and Allowance 薪金及補貼 RMB'000 人民幣千元	Bonus 花紅 RMB'000 人民幣千元	Total 總額 RMB'000 人民幣千元
Executive Directors		執行董事		
Liu Shaoyong*	劉紹勇*	—	—	—
Ma Xulun	馬須倫	670	—	670
Li Yangmin	李養民	636	—	636
Luo Zhuping	羅祝平	559	—	559
Li Jun**	李軍**	—	—	—
Luo Chaogeng***	羅朝庚***	—	—	—
Independent non-executive Directors		獨立非執行董事		
Liu Keya	劉克涯	97	—	97
Wu Xiaogen	吳曉根	—	—	—
Ji Weidong	季衛東	120	—	120
Shao Ruiqing	邵瑞慶	120	—	120
Supervisors		監事		
Yu Faming*	于法鳴*	—	—	—
Feng Jinxiong	馮金雄	366	—	366
Yan Taisheng	燕泰勝	317	—	317
Liu Jiashun	劉家順	—	—	—
Liu Jiangbo***	劉江波***	—	—	—
Xu Zhao*	徐昭*	—	—	—
Total	合計	2,885	—	2,885

* These directors and officials of the Company received emoluments from CEA Holding, the parent company, part of which were in respect of their services to the Company and its subsidiaries. No apportionment has been made as it is impracticable to apportion this amount between their services to the Group and their services to CEA Holding.

** These directors and officials of the Company retired or resigned during the year ended 31 December 2011.

*** These directors and officials of the Company were newly appointed during the year ended 31 December 2012.

During the year ended 31 December 2012, no directors and supervisors waived their emoluments (2011: Nil).

* 本公司部份董事、監事及其他行政人員向本公司及其附屬公司提供服務，並從母公司中國東航集團支取其酬金。由於公司董事認為難以將董事的服務分配到本集團及中國東航集團，因此此分類沒有在此表中反映。

** 本公司部分董事、監事及其他行政人員於二零一一年度退休或辭職。

*** 本公司部分董事、監事及其他行政人員於二零一二年度新聘任。

於截至二零一二年十二月三十一日止年度，無董事及監事放棄其酬金(二零一一年：無)。

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9. WAGES, SALARIES AND BENEFITS (continued) 9. 工資、薪金及福利(續)

(b) Five highest paid individuals

None of the Company's directors and supervisors was among the five highest paid individuals in the Group for the year ended 31 December 2012 (2011: Nil). The emoluments payable to the five highest paid individuals are as follows:

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Wages, salaries, bonus and allowances	工資、薪金、花紅及補貼	6,407	4,910

The emoluments fell within the following band:

		Number of individuals 人數	
		2012 二零一二年	2011 二零一一年
Below HK\$2,000,000	2,000,000港元以下	5	5

During the year ended 31 December 2012, no emoluments were paid by the Group to the Directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office (2011: Nil).

(b) 五位最高薪人員的酬金

於二零一二年度，本公司五位最高薪人員中無任何一位為董事及監事(二零一一年：無)。五位最高薪人員的酬金詳情如下：

酬金級別如下：

於截至二零一二年十二月三十一日止年度，本集團沒有就招聘或辭退人員而補償給予董事、監事或五位最高薪人員任何酬金(二零一一年：無)。

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10. IMPAIRMENT CHARGES/(REVERSALS)

10. 資產減值損失/(轉回)

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
(Reversal of)/provision for impairment charges on flight equipment spare parts (Note (a))	沖回飛行設備零件減值準備金 (註釋(a))	(103,337)	26,100
Impairment charges on assets held for sale (Note (b))	持有待售資產減值(註釋(b))	-	612,216
Impairment charge on property, plant and equipment	固定資產減值	89,870	-
		(13,467)	638,316

Note:

- (a) After acquisition of Shanghai Airlines Co., Ltd. ("Shanghai Airlines") in 2010, the Company has reviewed the composition of its aircraft fleet, aiming to simplify the models of aircraft and maximise operation efficiencies. In 2012, the Company has defined the main model of aircraft for future operation and signed series of contracts to dispose other models of aircraft between 2014 and 2016. As a consequence, the Company has reassessed the provision for the flight equipment spare parts in relation to the main models of aircraft and also the spare parts in relation to the aircraft to be disposed, and reversed provision of RMB103 million during the year ended 31 December 2012 in accordance with the reassessment results.
- (b) In December 2011, the Group management entered into an agreement with a third party to dispose certain aircraft and related engines in the forthcoming 12 months in view of high maintenance costs of those aircraft. The aircraft and engines has been classified as assets held for sale at 31 December 2011, and an impairment loss of approximately RMB612 million was made against those aircraft and engines by reference to the contracted selling price less estimated cost to sell (Note 44).

註釋：

- (a) 二零一零年收購上航股份後，本公司檢驗了機隊的組成以簡化機隊機型，使運行效率最大化。本公司在二零一二年定義了未來運行的主力機型，並計劃於二零一四年至二零一六年間處置其他機型飛機，並簽訂了一系列的處置協議。因此，於截至二零一二年十二月三十一日止年度，本公司重新評估了主要機型和即將處置機型的飛機設備零件的跌價準備，並根據評估結果轉回了1.03億元的跌價準備。
- (b) 於二零一一年十二月，本集團管理層與一第三方簽訂處置協議，在未來12個月內出售維護成本較高的若干飛機和發動機。於二零一一年十二月三十一日，該等飛機及發動機已被分類為持有待售資產。本集團根據處置協議中的出售價格扣除處置費用後的淨額，對該等飛機及發動機計提減值準備人民幣6.12億元(附註44)。

11. OPERATING PROFIT

11. 經營利潤

Operating profit is stated after charging the following items:

經營利潤以扣除下列項目列示：

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Amortisation of intangible assets	無形資產攤銷	38,404	26,167
Depreciation of property, plant and equipment	物業、機器及設備折舊		
– owned	– 自置	5,073,307	4,523,903
– leased (finance leases)	– 租賃(融資租賃)	2,397,541	2,361,919
Amortisation of lease prepayments	預付租賃款攤銷	47,658	41,777
Consumption of flight equipment spare parts	飛機設備零件消耗	747,268	739,663
(Reversal)/provision of impairment of trade and other receivables	應收賬款及 其他應收款減值(沖回)/準備	(6,872)	161,048
Auditors' remuneration	核數師酬金	12,880	16,100

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12. FINANCE INCOME

12. 財務收入

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Exchange gains, net (Note)	匯兌淨收益(註釋)	147,836	1,872,369
Interest income	利息收入	200,765	151,633
		348,601	2,024,002

Note:

The exchange gain primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases.

註釋：

匯兌收益主要來源於本集團以外幣計量的融資租賃負債及借款的匯兌轉換。

13. FINANCE COSTS

13. 財務支出

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Interest on bank borrowings	銀行借款利息	1,359,644	1,379,452
Interest relating to obligations under finance leases	融資租賃負債利息	411,547	268,487
Interest on bonds and debentures	債券及融資券利息	149,425	40,833
Interest relating to notes payable	應付票據利息	73,855	34,289
		1,994,471	1,723,061
Less: amounts capitalised into advanced payments on acquisition of aircraft (Note)	減：資本化為飛機預付款的金額(註釋)	(296,997)	(253,027)
amounts capitalised into construction in progress (Note)	資本化為在建工程的金額(註釋)	-	(7,307)
		1,697,474	1,462,727

Note:

The average interest rate used for interest capitalisation is 3.73% per annum for the year ended 31 December 2012 (2011: 3.84%).

註釋：

截至二零一二年十二月三十一日止年度，資本化利息採用的平均年利率為3.73%(二零一一年：3.84%)。

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14. INCOME TAX

Income tax charged to the consolidated income statement is as follows:

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Provision for PRC income tax	中國所得稅準備	214,944	255,947
Deferred taxation (Note 37)	遞延稅項	(10,143)	8,282
		204,801	264,229

Prior to 2008, the Company and certain of its subsidiaries (the "Pudong Subsidiaries") located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong District, Shanghai. Under the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which was approved by the National People's Congress on 16 March 2007 and became effective from 1 January 2008, the Company and the Pudong Subsidiaries are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to 25% over five years from 2008. For the year ended 31 December 2012, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries was 25% (2011: 24%). Other subsidiaries of the Company, except for those incorporated in Hong Kong, which are subject to Hong Kong corporate income tax rate of 16.5% (2011: 16.5%), are generally subject to the PRC standard corporate tax rate of 25% (2011: 25%) under the New CIT Law.

Pursuant to the "Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issues Concerning Relevant Tax Policies for Enhancing the Implementation of Western Region Development Strategy" (Cai Shui [2011] No.58), and other series of tax regulations, the enterprises, located in the western regions and engaged in the industrial activities as listed in the "Catalogue of Encouraged Industries in Western Regions", will be entitled to a reduced income tax rate of 15% from 2011 to 2020 upon approval from tax authorities. In 2012, China Eastern Yunnan Airlines Co., Ltd. ("CEA Yunnan"), a subsidiary of the Group, obtained approval from tax authorities and enjoy the reduced tax rate of 15% from 1 January 2011.

14. 稅項

計入合併利潤表的稅項如下：

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Provision for PRC income tax	中國所得稅準備	214,944	255,947
Deferred taxation (Note 37)	遞延稅項	(10,143)	8,282
		204,801	264,229

於二零零八年以前，本公司及於上海市浦東新區註冊的若干附屬公司(「浦東附屬公司」)可享受上海浦東新區的稅務優惠政策，稅率為15%。自二零零八年一月一日起施行的中華人民共和國全國人民代表大會於二零零七年三月十六日通過的《中華人民共和國企業所得稅法》(「新所得稅法」)後，本公司適用的企業所得稅率在二零零八年至二零一二年的五年期間內逐步過渡到25%。於二零一一年度，本公司及浦東附屬公司適用的所得稅率為25%(二零一一年：24%)。除註冊在香港的附屬公司按照香港稅法規定適用16.5%(二零一一年：16.5%)的所得稅率外，本公司其他的附屬公司基本上按照新所得稅法規定適用標準所得稅率25%(二零一一年：25%)。

根據《中華人民共和國財政部、國家稅務總局和海關總署關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號)以及其他稅收法規，位於西部地區並從事《西部地區鼓勵類產業目錄》中規定的產業項目的企業可以經稅務機關批准後從二零一一年到二零二零年享受15%的所得稅優惠稅率。本集團的東航雲南子公司於二零一二年得到稅務機關的批准，從二零一一年一月一日起享受15%的優惠稅率。

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14. INCOME TAX (continued)

Tax on the Group's consolidated income statement differs from the theoretical amount that would arise using the standard taxation rate of the Company as follows:

14. 稅項(續)

本集團就合併利潤表的稅項，與本公司適用的稅率而應產生之理論稅額的差額如下：

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Profit before income tax	除稅前利潤	3,012,404	4,840,701
Adjusted by:	調整：		
Share of result of associates and jointly controlled entities	攤佔聯營公司及合營公司的業績	(133,169)	(106,872)
		2,879,235	4,733,829
Tax calculated at the tax rate of 25% (2011: 24%)	按25%稅率計算的所得稅費用 (2011年：24%)	719,809	1,136,119
Effect attributable to subsidiaries charged at tax rates of 15% or 16.5% (2011: 25% or 16.5%)	附屬公司15%或16.5%所得稅稅率的影響 (2011年：25%或16.5%)	(48,669)	10,637
Income not subject to tax	無需繳稅收入	-	(12,426)
Expenses not deductible for tax purposes	不可抵稅之費用	12,989	31,858
Utilisation of previously unrecognised tax losses	使用以前年度未確認遞延稅資產的稅務虧損	(654,996)	(1,222,570)
Unrecognised tax losses for the year (Realisation of)/Unrecognised deductible temporary differences for the year	本年度未予確認遞延稅資產的稅務虧損 本年度(實現)/未確認遞延稅資產的可抵扣暫時性差異	210,777 (35,109)	95,291 225,320
Tax charge	稅項費用	204,801	264,229

The Group operates international flights to overseas destinations. There was no material overseas taxation for the year ended 31 December 2012 and 2011, as there are avoidance of double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

本集團經營國際航線，飛往某些海外目的地。由於中國與相關的司法權區(包括香港)達成了豁免雙重徵稅的共識，本集團於截至二零一二年與二零一一年十二月三十一日止年度並無重大海外稅款。

15. DIVIDEND

The Board has not recommended any dividend for the year ended 31 December 2012 (2011: Nil).

15. 股息

本公司董事會建議截至二零一二年十二月三十一日止年度不派發任何股息(二零一一年：無)。

16. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB2,661 million (2011: RMB4,523 million).

16. 本公司權益持有者應佔利潤

應歸屬於本公司權益持有者的利潤計人民幣26.61億元(二零一一年：人民幣45.23億元)已經包含於公司的財務報表中。

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17. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB2,954 million (2011: RMB4,576 million) and the weighted average number of shares of 11,276,538,860 (2011: 11,276,538,860) in issue during the year ended 31 December 2012. The Company has no potentially dilutive option or other instruments relating to the ordinary shares.

17. 每股收益

每股基本收益乃按本公司權益持有者應佔利潤人民幣29.54億元(二零一一年：人民幣45.76億元)和本年內已發行的加權平均股數11,276,538,860股(二零一一年：11,276,538,860股)計算。本公司並無潛在可攤薄普通股的購股權或其他金融工具。

18. INTANGIBLE ASSETS

18. 無形資產

		Goodwill (Note (a)) 商譽 (註釋(a)) RMB'000 人民幣千元	Group 集團 Computer software 電腦軟件 RMB'000 人民幣千元	Total 總計 RMB'000 人民幣千元
Cost	成本			
At 1 January 2011	於二零一一年一月一日	11,269,695	217,411	11,487,106
Additions	添置	-	46,381	46,381
At 31 December 2011	於二零一一年十二月三十一日	11,269,695	263,792	11,533,487
At 1 January 2012	於二零一二年一月一日	11,269,695	263,792	11,533,487
Additions	添置	-	133,913	133,913
At 31 December 2012	於二零一二年十二月三十一日	11,269,695	397,705	11,667,400
Accumulated amortisation	累計攤銷			
At 1 January 2011	於二零一一年一月一日	-	153,730	153,730
Charge for the year	本年攤銷	-	26,167	26,167
At 31 December 2011	於二零一一年十二月三十一日	-	179,897	179,897
At 1 January 2012	於二零一二年一月一日	-	179,897	179,897
Charge for the year	本年攤銷	-	38,404	38,404
At 31 December 2012	於二零一二年十二月三十一日	-	218,301	218,301
Net book amount	賬面淨值			
At 31 December 2011	於二零一一年十二月三十一日	11,269,695	83,895	11,353,590
At 31 December 2012	於二零一二年十二月三十一日	11,269,695	179,404	11,449,099

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18. INTANGIBLE ASSETS (continued)

18. 無形資產(續)

		Company 公司		
		Goodwill (Note (a)) 商譽 (註釋(a)) RMB'000 人民幣千元	Computer software 電腦軟件 RMB'000 人民幣千元	Total 總計 RMB'000 人民幣千元
Cost				
At 1 January 2011	於二零一一年一月一日	11,269,695	161,095	11,430,790
Additions	添置	–	41,842	41,842
At 31 December 2011	於二零一一年十二月三十一日	11,269,695	202,937	11,472,632
At 1 January 2012	於二零一二年一月一日	11,269,695	202,937	11,472,632
Additions	添置	–	122,762	122,762
At 31 December 2012	於二零一二年十二月三十一日	11,269,695	325,699	11,595,394
Accumulated amortisation				
At 1 January 2011	於二零一一年一月一日	–	107,491	107,491
Charge for the year	本年攤銷	–	21,767	21,767
At 31 December 2011	於二零一一年十二月三十一日	–	129,258	129,258
At 1 January 2012	於二零一二年一月一日	–	129,258	129,258
Charge for the year	本年攤銷	–	34,330	34,330
At 31 December 2012	於二零一二年十二月三十一日	–	163,588	163,588
Net book amount				
At 31 December 2011	於二零一一年十二月三十一日	11,269,695	73,679	11,343,374
At 31 December 2012	於二零一二年十二月三十一日	11,269,695	162,111	11,431,806

Notes:

(a) The balance represents the goodwill arising from the acquisition of Shanghai Airlines. The goodwill is attributable to strengthening the competitiveness of the Group's airlines operation business, attaining synergy through integration of the resources and providing the evolution of Shanghai international air transportation center. For the purpose of impairment assessment, the goodwill is allocated to the airline operation business, the principal cash-generating-unit ("CGU") that the Group operates and benefits from the acquisition.

The recoverable amount of the CGU is principally based on the Company's fair value, which is determined by reference to the observable quoted market price of the Company's shares less the costs of disposal. No impairment for the goodwill is required based on the Company's fair value as at the balance sheet date.

註釋:

(a) 商譽是產生於收購上航股份。該商譽主要體現為增強公司的競爭力，通過資源整合實現協同作用以及促進上海國際航運中心的建設。就評估減值的目的，商譽被分配至航空業務分部，即本集團主要營運及受益於此次收購的現金產出單元。

該現金產出單元的可收回金額主要基於本公司的公允價值並可參照本公司股票的市場價格減去處置費用計算。在資產負債表日，根據本公司的公允價值，商譽不存在減值。

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19. PROPERTY, PLANT AND EQUIPMENT

19. 物業、機器及設備

		Group 集團					
		Aircraft, engines and flight equipment 飛機、發動機及飛行設備		Buildings	Other property, plant and equipment 其他物業、 機器及設備	Construction in progress 在建工程	Total 合計
		Owned 自置 RMB'000 人民幣千元	Held under finance leases 以融資 租賃持有 RMB'000 人民幣千元				
				RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
Cost	成本值						
At 1 January 2012	於二零一二年一月一日	59,860,668	37,640,743	5,237,670	5,632,102	2,139,160	110,510,343
Transfers from construction in progress	從在建工程轉入	-	-	1,584,745	69,657	(1,654,402)	-
Transfers from advanced payments on acquisition of aircraft (Note 21)	從飛機預付款轉入 (附註21)	4,716,802	1,982,177	-	-	-	6,698,979
Sales and finance leased back	售後融資租回	(1,583,999)	1,583,999	-	-	-	-
Additions	添置	5,443,597	2,862,007	3,721	562,357	1,576,395	10,448,077
Other decrease	其他減少	(25,656)	(664,141)	-	-	-	(689,797)
Transfer to other long term assets	轉至其他長期資產	-	-	-	-	(55,506)	(55,506)
Disposals	處置	(906,650)	(486,316)	(7,079)	(195,284)	-	(1,595,329)
At 31 December 2012	於二零一二年十二月三十一日	67,504,762	42,918,469	6,819,057	6,068,832	2,005,647	125,316,767
Accumulated depreciation	累計折舊						
At 1 January 2012	於二零一二年一月一日	22,677,254	8,391,720	1,293,602	3,538,955	-	35,901,531
Charge for the year	本年度折舊	4,394,601	2,397,541	234,749	443,957	-	7,470,848
Sales and finance leased back	售後融資租回	(32,363)	32,363	-	-	-	-
Disposals	處置	(855,457)	(486,315)	(5,062)	(148,301)	-	(1,495,135)
At 31 December 2012	於二零一二年十二月三十一日	26,184,035	10,335,309	1,523,289	3,834,611	-	41,877,244
Impairment	減值準備						
At 1 January 2012	於二零一二年一月一日	721,101	107,770	-	550	21,596	851,017
Charge for the year	本年度計提	89,870	-	-	-	-	89,870
Disposals	處置	(20,125)	-	-	-	-	(20,125)
At 31 December 2012	於二零一二年十二月三十一日	790,846	107,770	-	550	21,596	920,762
Net book amount	賬面淨值						
At 31 December 2012	於二零一二年十二月三十一日	40,529,881	32,475,390	5,295,768	2,233,671	1,984,051	82,518,761
At 1 January 2012	於二零一二年一月一日	36,462,313	29,141,253	3,944,068	2,092,597	2,117,564	73,757,795

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19. PROPERTY, PLANT AND EQUIPMENT 19. 物業、機器及設備(續)

(continued)

		Group 集團					
		Aircraft, engines and flight equipment 飛機、發動機及飛行設備		Buildings 樓宇	Other property, plant and equipment 其他物業、 機器及設備	Construction in progress 在建工程	Total 合計
		Owned 自置	Held under finance leases 租賃持有 以融資				
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
Cost	成本值						
At 1 January 2011	於二零一一年一月一日	55,025,526	36,728,572	4,881,463	5,256,126	1,063,659	102,955,346
Transfers from construction in progress	從在建工程轉入	-	-	310,006	179,927	(489,933)	-
Transfers from advanced payments on acquisition of aircraft (Note 21)	從飛機預付款轉入(附註21)	1,591,142	2,230,271	-	-	-	3,821,413
Additions	添置	4,022,991	2,967,931	78,279	533,186	1,720,738	9,323,125
Transfer to assets held for sale (Note 44)	轉至持有待售資產 (附註44)	-	(3,863,025)	-	-	-	(3,863,025)
Transfer to lease prepayments	轉至預付租賃款	-	-	-	-	(153,880)	(153,880)
Disposals	處置	(778,991)	(423,006)	(32,078)	(337,137)	(1,424)	(1,572,636)
At 31 December 2011	於二零一一年十二月三十一日	59,860,668	37,640,743	5,237,670	5,632,102	2,139,160	110,510,343
Accumulated depreciation	累計折舊						
At 1 January 2011	於二零一一年一月一日	19,584,570	8,855,680	1,125,373	3,349,386	-	32,915,009
Charge for the year	本年度折舊	3,871,675	2,361,919	177,049	475,179	-	6,885,822
Transfer to assets held for sale (Note 44)	轉至持有待售資產 (附註44)	-	(2,402,873)	-	-	-	(2,402,873)
Disposals	處置	(778,991)	(423,006)	(8,820)	(285,610)	-	(1,496,427)
At 31 December 2011	於二零一一年十二月三十一日	22,677,254	8,391,720	1,293,602	3,538,955	-	35,901,531
Impairment	減值準備						
At 1 January 2011	於二零一一年一月一日	721,101	473,393	-	550	23,020	1,218,064
Transfer to assets held for sale (Note 44)	轉至持有待售資產 (附註44)	-	(365,623)	-	-	-	(365,623)
Disposals	其他處置	-	-	-	-	(1,424)	(1,424)
At 31 December 2011	於二零一一年十二月三十一日	721,101	107,770	-	550	21,596	851,017
Net book amount	賬面淨值						
At 31 December 2011	於二零一一年十二月三十一日	36,462,313	29,141,253	3,944,068	2,092,597	2,117,564	73,757,795
At 1 January 2011	於二零一一年一月一日	34,719,855	27,399,499	3,756,090	1,906,190	1,040,639	68,822,273

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19. PROPERTY, PLANT AND EQUIPMENT 19. 物業、機器及設備(續)

(continued)

		Company					Total	
		公司						
		Aircraft, engines and flight equipment		Buildings	Other property, plant and equipment	Construction in progress		
		Owned	Held under finance leases					
自置	租賃持有	樓宇	其他物業、機器及設備	在建工程	合計			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元	
Cost	成本值							
At 1 January 2012	於二零一二年一月一日	39,657,570	29,237,581	2,706,474	3,295,543	994,541	75,891,709	
Transfers from construction in progress	從在建工程轉入	-	-	50,510	807	(51,317)	-	
Transfers from advanced payments on acquisition of aircraft (Note 21)	從飛機預付款轉入 (附註21)	4,716,802	1,982,177	-	-	-	6,698,979	
Sales and finance leased back	售後融資租回	(1,583,999)	1,583,999	-	-	-	-	
Additions	添置	3,565,109	2,741,934	3,149	360,683	559,260	7,230,135	
Invests to subsidiaries as capital contribution	投資於附屬公司	(1,393,517)	-	-	(52,460)	-	(1,445,977)	
Transfer to subsidiaries	轉入附屬公司	(309,240)	(1,929,542)	-	-	-	(2,238,782)	
Disposals	處置	(533,429)	(334,251)	(1,993)	(79,831)	-	(949,504)	
Other decrease	其他減少	-	(537,294)	-	-	-	(537,294)	
At 31 December 2012	於二零一二年十二月三十一日	44,119,296	32,744,604	2,758,140	3,524,742	1,502,484	84,649,266	
Accumulated depreciation	累計折舊							
At 1 January 2012	於二零一二年一月一日	15,139,068	6,446,397	751,256	2,474,624	-	24,811,345	
Charge for the year	本年度折舊	2,839,275	1,882,829	96,758	247,833	-	5,066,695	
Sales and finance leased back	售後融資租回	(32,363)	32,363	-	-	-	-	
Invests to subsidiaries as capital contribution	投資於附屬公司	(566,468)	-	-	(42,120)	-	(608,588)	
Transfer to subsidiaries	轉入附屬公司	(23,677)	(579,193)	-	-	-	(602,870)	
Disposals	處置	(502,365)	(334,251)	(1,523)	(77,139)	-	(915,278)	
At 31 December 2012	於二零一二年十二月三十一日	16,853,470	7,448,145	846,491	2,603,198	-	27,751,304	
Impairment	減值準備							
At 1 January 2012	於二零一二年一月一日	721,101	107,770	-	-	5,200	834,071	
Impairment charge for the year	本年度計提	48,718	-	-	-	-	48,718	
At 31 December 2012	於二零一二年十二月三十一日	769,819	107,770	-	-	5,200	882,789	
Net book amount	賬面淨值							
At 31 December 2012	於二零一二年十二月三十一日	26,496,007	25,188,689	1,911,649	921,544	1,497,284	56,015,173	
At 1 January 2012	於二零一二年一月一日	23,797,401	22,683,414	1,955,218	820,919	989,341	50,246,293	

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19. PROPERTY, PLANT AND EQUIPMENT 19. 物業、機器及設備(續)

(continued)

		Company 公司					Total 合計
		Aircraft, engines and flight equipment 飛機、發動機及飛行設備		Buildings 樓宇	Other property, plant and equipment 其他物業、 機器及設備	Construction in progress 在建工程	
		Owned 自置	Held under finance leases 租賃持有				
		RMB'000 人民幣千元	RMB'000 人民幣千元				
Cost	成本值						
At 1 January 2011	於二零一一年一月一日	41,725,668	30,512,148	2,522,648	3,225,784	823,081	78,809,329
Transfers from construction in progress	從在建工程轉入	-	-	154,235	47,500	(201,735)	-
Transfers from advanced payments on acquisition of aircraft (Note 21)	從飛機預付款轉入 (附註21)	1,584,261	2,230,271	-	-	-	3,814,532
Additions	添置	2,853,247	2,312,515	55,710	336,622	956,481	6,514,575
Transfer to assets held for sale (Note 44)	轉至持有待售資產 (附註44)	-	(3,863,025)	-	-	-	(3,863,025)
Invests to a subsidiary as capital contribution	投資於附屬公司	(5,537,968)	-	(16,500)	(138,085)	(429,406)	(6,121,959)
Transfer to subsidiaries	轉入附屬公司	(301,521)	(1,654,184)	-	-	-	(1,955,705)
Transfer to lease prepayments	轉至預付租賃款	-	-	-	-	(153,880)	(153,880)
Disposals	處置	(666,117)	(300,144)	(9,619)	(176,278)	-	(1,152,158)
At 31 December 2011	於二零一一年十二月三十一日	39,657,570	29,237,581	2,706,474	3,295,543	994,541	75,891,709
Accumulated depreciation	累計折舊						
At 1 January 2011	於二零一一年一月一日	15,161,832	7,595,373	661,402	2,413,261	-	25,831,868
Charge for the year	本年度折舊	2,745,666	1,922,252	94,444	294,242	-	5,066,604
Transfer to assets held for sale (Note 44)	轉至持有待售資產 (附註44)	-	(2,402,873)	-	-	-	(2,402,873)
Invests to a subsidiary as capital contribution	投資於附屬公司	(2,102,313)	-	(1,918)	(96,946)	-	(2,201,177)
Transfer to subsidiaries	轉入附屬公司	-	(368,211)	-	-	-	(368,211)
Disposals	處置	(666,117)	(300,144)	(2,672)	(135,933)	-	(1,104,866)
At 31 December 2011	於二零一一年十二月三十一日	15,139,068	6,446,397	751,256	2,474,624	-	24,811,345
Impairment	減值準備						
At 1 January 2011	於二零一一年一月一日	721,101	473,393	-	-	5,200	1,199,694
Transfer to assets held for sale (Note 44)	轉至持有待售資產 (附註44)	-	(365,623)	-	-	-	(365,623)
At 31 December 2011	於二零一一年十二月三十一日	721,101	107,770	-	-	5,200	834,071
Net book amount	賬面淨值						
At 31 December 2011	於二零一一年十二月三十一日	23,797,401	22,683,414	1,955,218	820,919	989,341	50,246,293
At 1 January 2011	於二零一一年一月一日	25,842,735	22,443,382	1,861,246	812,523	817,881	51,777,767

Note:

註釋:

(a) As at 31 December 2012, certain aircraft and buildings owned by the Group and the Company with an aggregate net book amount of approximately RMB22,544 million and RMB15,078 million, respectively (2011: approximately RMB18,317 million and RMB10,005 million, respectively) were pledged as collateral under certain loan arrangements (Note 34).

(a) 於二零一二年十二月三十一日，本集團及本公司賬面淨值分別約為人民幣22.544億元及人民幣15.078億元(二零一一年：人民幣18.317億元及人民幣10.005億元)的若干飛機及樓宇已用作若干借款協定的抵押品(附註34)。

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20. LEASE PREPAYMENTS

20. 預付租賃款

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Cost	成本				
At 1 January	一月一日結餘	1,796,276	1,696,575	659,611	551,785
Additions	添置	358,232	159,306	304,935	157,547
Disposals	處置	—	(59,605)	—	(49,721)
At 31 December	十二月三十一日結餘	2,154,508	1,796,276	964,546	659,611
Accumulated amortisation	累計攤銷				
At 1 January	一月一日結餘	325,004	290,419	162,310	152,925
Charge for the year	本年度攤銷	47,658	41,777	21,090	15,019
Disposals	處置	—	(7,192)	—	(5,634)
At 31 December	十二月三十一日結餘	372,662	325,004	183,400	162,310
Net book amount	賬面淨值				
At 31 December	十二月三十一日結餘	1,781,846	1,471,272	781,146	497,301

Lease prepayments represent unamortised prepayments for land use rights.

The Group's land use rights are located in the PRC and the majority of these land use rights have terms of 50 years from the date of grant. As at 31 December 2012, the majority of these land use rights had remaining terms ranging from 34 to 50 years (2011: from 35 to 50 years).

預付租賃款乃指未攤銷的預付土地使用權租賃款項。

本集團所有的土地使用權均位於中國，而大部份土地使用權許可權年限為自頒發日起計五十年。於二零一二年十二月三十一日，大部份的土地使用權剩餘可使用年期為三十四至五十年(二零一一年：三十五至五十年)。

21. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

21. 飛機預付款

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
At 1 January	一月一日結餘	10,968,344	6,356,602	10,195,340	6,231,270
Payment during the year	本年支付	7,328,529	8,180,128	6,947,846	7,533,475
Interest capitalised (Note 13)	資本化利息(附註13)	296,997	253,027	289,692	245,127
Transfers to property, plant and equipment (Note 19)	轉至物業、機器及設備(附註19)	(6,698,979)	(3,821,413)	(6,698,979)	(3,814,532)
At 31 December	十二月三十一日結餘	11,894,891	10,968,344	10,733,899	10,195,340

Included in the Group's and the Company's balance as at 31 December 2012, the amounts of accumulated interest capitalised are approximately RMB630 million and RMB623 million respectively (2011: RMB632 million and RMB617 million).

於二零一二年十二月三十一日，本集團及本公司結餘中的累計資本化利息合計分別約為人民幣6.30億元(二零一一年：人民幣6.32億元)及人民幣6.23億元(二零一一年：人民幣6.17億元)。

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22. INVESTMENTS IN SUBSIDIARIES

22. 投資於附屬公司

		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Investment, at cost	投資的成本值	10,455,900	7,104,106

Particulars of the principal subsidiaries, majority of which are limited liability companies established and operating in the PRC, are as follows:

本集團的主要附屬公司均為在中國成立及營運的有限責任公司，其具體情況如下：

Company 公司名稱	Place and date of establishment 成立地點及日期	Registered capital 註冊資本		Attributable equity interest 應佔股份		Principal activities 主要業務
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年	2011 二零一一年	
China Eastern Airlines Yunnan Co., Ltd. ("CEA Yunnan") (Note (a)) 中國東方航空雲南有限公司 (「東航雲南」)(註釋(a))	PRC 2 August 2011 中國 二零一一年 八月二日	3,661,540	3,661,540	90.36%	95.97%	Provision of airline services 提供航空服務
China Cargo Airlines Co., Ltd. ("China Cargo") 中國貨運航空有限公司(「中貨航」)	PRC 22 July 1998 中國 一九九八年 七月二十二日	3,000,000	3,000,000	51%	51%	Provision of cargo carriage services 提供貨物運輸服務
China Eastern Airlines Wuhan Co., Ltd. ("CEA Wuhan") (Note (b)) 中國東方航空武漢有限責任公司 (「東航武漢」)(註釋(b))	PRC 16 August 2002 中國 二零零二年 八月十六日	1,750,000	600,000	72%	96%	Provision of airline services 提供航空服務
China United Airlines Co., Ltd. ("United Airlines") (Note (c)) 中國聯合航空有限公司(「中聯航」)	PRC 21 September 1984 中國 一九八四年 九月二十一日	1,320,000	100,000	100%	80%	Provision of airline services 提供航空服務
Shanghai Eastern Airlines Logistics Co., Ltd. ("Eastern Logistics") (Note (d)) 上海東方遠航物流有限公司 (「東遠物流」)	PRC 23 August 2004 中國 二零零四年 八月二十三日	1,150,000	200,000	100%	70%	Provision of cargo logistics services 提供貨運物流服務

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22. INVESTMENTS IN SUBSIDIARIES (continued)

22. 投資於附屬公司(續)

Company 公司名稱	Place and date of establishment 成立地點及日期	Registered capital 註冊資本		Attributable equity interest 應佔股份		Principal activities 主要業務
		2012	2011	2012	2011	
		二零一二年 RMB'000 人民幣千元	二零一一年 RMB'000 人民幣千元	二零一二年	二零一一年	
China Eastern Airlines Jiangsu Co., Ltd. ("CEA Jiangsu") 中國東方航空江蘇有限公司 (「東航江蘇」)	PRC 3 May 1993 中國 一九九三年 五月三日	2,000,000	2,000,000	62.56%	62.56%	Provision of airline services 提供航空服務
Shanghai Eastern Flight Training Co., Ltd. ("Flight Training") 上海東方飛行培訓有限公司 (「飛培」)	PRC 18 December 1995 中國 一九九五年 十二月十八日	608,443	608,443	100%	100%	Provision of flight training services 提供飛行訓練服務
Shanghai Airlines Co., Ltd. 上海航空有限公司	PRC 16 March 2010 中國 二零一零年 三月十六日	500,000	500,000	100%	100%	Provision of airline services 提供航空服務
Eastern Airlines Hotel Co., Ltd. 東航大酒店有限公司	PRC 18 March 1998 中國 一九九八年 三月十八日	70,000	70,000	86%	86%	Provision of hotel services primarily to crew members 主要是為飛行人員提供酒店服務
Shanghai Airlines Tours International (Group) Co., Ltd ("Shanghai Airlines Tours") 上海航空國際旅遊(集團)有限公司 (「上航國旅」)	PRC 29 August 1992 中國 一九九二年 八月二十九日	50,090	50,090	100%	86%	Tour operations, travel and air ticketing agency and transportation 提供旅遊和航空票務代理及交通服務
Eastern Business Airlines Service Co., Ltd. 東方公務航空服務公司	PRC 27 September 2008 中國 二零零八年 九月二十七日	50,000	50,000	100%	100%	Provision of airlines consultation services 主要提供航空業務諮詢

Notes:

(a) In 2010, the Company entered into an agreement with the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province to ("Yunnan SASAC") establish CEA Yunnan with registered capital of RMB3,662 million, in which the Company holds 65% interests. As at 31 December 2012, the Company has contributed all its share of RMB2,380 million in cash and net assets; Yunnan SASAC has contributed its share of RMB254 million in cash, of which RMB154 million was injected in 2012.

註釋:

(a) 於二零一零年，本公司與雲南省國資委簽訂協議，訂約方同意共同成立東航雲南。東航雲南的註冊資本為人民幣36.62億元，本公司佔註冊資本的65%。截至二零一二年十二月三十一日，本公司以現金和淨資產人民幣23.8億元完成本公司應出資份額；雲南省國資委以現金出資人民幣2.54億元，其中人民幣1.54億元於二零一二年出資。

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22. INVESTMENTS IN SUBSIDIARIES (continued)

Notes: (continued)

- (b) In 2012, the existed shareholders of CEA Wuhan and certain new shareholders decided to increase the registered capital of CEA Wuhan from RMB600 million to RMB1,750 million. As at 31 December 2012, the Company has contributed capital of RMB525 million in cash, among which RMB237 million was recognized as registered capital and RMB288 million was credited to the share premium of CEA Wuhan; and the other investors have contributed capital of RMB300 million, among which RMB288 million was recognized as registered capital and RMB12 million was recognized as share premium of CEA Wuhan. Upon completion of aforementioned capital injections, the share percentage of the Company in CEA Wuhan was diluted from 96% to 72%.
- (c) In 2012, the Company acquired 20% of interest in United Airlines owned by non-controlling interest with total consideration of RMB84 million, and United Airlines became a wholly owned subsidiary of the Company after the acquisition. The difference of RMB41 million between the consideration and the net book value of non-controlling interest as at the acquisition date has been debited to capital reserve. Subsequent to the acquisition, the Company contributed RMB317 million in cash and RMB903 million in net assets into United Airlines.
- (d) In 2012, the Company acquired 30% interest in Eastern Logistic owned by non-controlling interest with total consideration of RMB562 million, and Eastern Logistic became a wholly owned subsidiary of the Company after the acquisition. The difference of RMB449 million between the consideration and the net book value of non-controlling interests as at the acquisition date has been debited to capital reserve. Subsequent to the acquisition, the Company contributed RMB950 million in cash into Eastern Logistic.

22. 投資於附屬公司(續)

註釋：(續)

- (b) 東航武漢的原股東和某些新投資者決定於二零一二年將東航武漢之註冊資本由人民幣6.00億元增加到人民幣17.50億元。截至二零一二年十二月三十一日，本公司以現金出資人民幣5.25億元，其中人民幣2.37億元確認為註冊資本，人民幣2.88億元確認為股本溢價。其他投資者出資人民幣3.00億元，其中人民幣2.88億元作為註冊資本，人民幣0.12億元作為股本溢價。完成上述注資後，本公司在東航武漢的股權比例由96%稀釋到72%。
- (c) 本公司於二零一二年以人民幣0.84億元的對價取得了中聯航20%由非控制性權益擁有的中聯航權益。中聯航於本次收購後成為本公司的全資子公司。支付的對價與非控制性權益於收購日的淨賬面價值間的差額計人民幣0.41億元沖減了資本儲備。本公司在收購後進一步向中聯航注資人民幣3.17億元現金和人民幣9.03億元淨資產。
- (d) 本公司於二零一二年以人民幣5.62億元的對價取得了東遠物流30%由非控制性權益擁有的東遠物流權益，東遠物流於本次收購後成為本公司的全資子公司。支付的對價與非控制性權益於收購日的淨賬面價值間的差額計人民幣4.49億元沖減了資本儲備。本公司在收購後進一步向東遠物流注資人民幣9.50億元現金。

23. INVESTMENTS IN ASSOCIATES

23. 投資於聯營公司

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Unlisted investments, at cost	非上市投資的成本值	620,329	622,768	578,836	578,836
Share of results/reserves	攤佔業績／儲備	213,143	214,821	-	-
		833,472	837,589	578,836	578,836

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23. INVESTMENTS IN ASSOCIATES (continued)

23. 投資於聯營公司(續)

The movement on investments in associates is as follows:

投資於聯營公司的變動如下：

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
At 1 January	一月一日結餘	837,589	807,669	578,836	578,836
Share of results of associates	攤佔聯營公司業績	103,209	75,435	-	-
Share of revaluation on available-for-sale investments held by an associate	攤佔聯營公司所持的可供出售投資的公允價值變動	2,188	(2,701)	-	-
Disposal of associates	出售聯營公司	(2,439)	-	-	-
Dividend received/declared during the year	本年收到/宣告的股息	(107,075)	(42,814)	-	-
At 31 December	十二月三十一日結餘	833,472	837,589	578,836	578,836

Particulars of the principal associates, which are limited liability companies established and operating in the PRC, are as follows:

本集團的主要聯營公司均為中國成立及營運的有限責任公司，其具體情況如下：

Company 公司名稱	Place and date of establishment 成立地點及日期	Registered capital 註冊資本		Attributable equity interest 應佔股份		Principal activities 主要業務
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年	2011 二零一一年	
Eastern Air Group Finance Co., Ltd. ("Eastern Finance") 東航集團財務有限責任公司 (「東航財務」)	PRC 6 December 1995 中國 一九九五年 十二月六日	400,000	400,000	25%	25%	Provision of financial services to Group companies of CEA Holding 為中國東航集團下轄公司提供財務服務
China Eastern Air Catering Investment Co., Ltd. 東方航空食品投資有限公司	PRC 17 November 2003 中國 二零零三年 十一月十七日	350,000	350,000	45%	45%	Provision of air catering services 提供航空餐食服務
Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited ("Shanghai P&W") (Note(a)) 上海普惠飛機發動機維修有限公司 (「上海普惠」)(註釋(a))	PRC 28 March 2008 中國 二零零八年 三月二十八日	USD39,500	USD39,500	51%	51%	Provision of maintenance of aircraft, engine and other related components maintenance services 提供飛機、發動機和其他相關部件的維修

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23. INVESTMENTS IN ASSOCIATES (continued)

23. 投資於聯營公司(續)

Company 公司名稱	Place and date of establishment 成立地點及日期	Registered capital 註冊資本		Attributable equity interest 應佔股份		Principal activities 主要業務
		2012	2011	2012	2011	
		二零一二年 RMB'000 人民幣千元	二零一一年 RMB'000 人民幣千元	二零一二年	二零一一年	
New Shanghai International Tower Co., Ltd. 新上海國際大廈有限公司	PRC 17 November 1992 中國 一九九二年 十一月十七日	166,575	166,575	20%	20%	Provision of property development and management 提供物業管理服務
Eastern Aviation Import & Export Co., Ltd. ("Eastern Import & Export") 東方航空進出口有限公司 (「東航進出口」)	PRC 9 June 1993 中國 一九九三年 六月九日	80,000	80,000	45%	45%	Provision of aviation equipment, spare parts purchase 從事飛機、飛行設備及飛行設備零件貿易
Shanghai Dongmei Aviation Travel Co., Ltd. ("Dongmei Travel") 上海東美航空旅遊有限公司 (「東美旅遊」)	PRC 17 October 2004 中國 二零零四年 十月十七日	51,369	51,369	27%	27%	Provision of traveling and accommodation agency services 提供旅遊及酒店住宿代理服務
Eastern Aviation Advertising Service Co., Ltd. ("Eastern Advertising") 上海東方航空傳媒有限公司 (「東航傳媒」)	PRC 04 March 1986 中國 一九八六年 三月四日	50,000	50,000	45%	45%	Provision of aviation advertising agency services 從事代理航空廣告業務
Shanghai Hongpu Civil Airport Communication Co., Ltd. 上海虹浦民用機場通信有限公司	PRC 18 October 2002 中國 二零零二年 十月十八日	25,000	25,000	30%	30%	Provision of cable and wireless communication services 提供有線及無線通訊服務
Collins Aviation Maintenance Service Shanghai Ltd. 上海科林斯航空維修服務有限公司	PRC 27 September 2002 中國 二零零二年 九月二十七日	USD7,000	USD7,000	35%	35%	Provision of airline electronic product maintenance services 提供航線電子產品維修服務

Notes:

(a) In 2008, the Company entered into an agreement with United Technologies International Corporation ("Technologies International") to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited ("Shanghai P&W"). Shanghai P&W has a registered capital of approximately USD40 million in which the Company holds a 51% interests. According to the shareholder's agreement, Technologies International has the power to govern the financial and operating policies and in this respect the Company accounts for Shanghai P&W as an associate.

註釋:

(a) 於二零零八年，本公司與美國聯合技術國際有限公司(「聯合技術國際」)投資成立了上海普惠飛機發動機維修有限公司(以下簡稱「上海普惠」)，上海普惠註冊資本為0.4億美元，本公司持有該公司51%的股權。根據公司章程，聯合技術國際對上海普惠的財務和日常經營活動具有控制權，因此本公司將上海普惠作為聯營公司核算。

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23. INVESTMENTS IN ASSOCIATES (continued)

Notes: (continued)

(b) The Group's aggregated share of the revenues, results, assets and liabilities of its associates are as follows:

		Assets 資產	Liabilities 負債	Revenues 收入	Profit 利潤
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
2012	二零一二年	4,021,663	3,188,191	2,973,719	103,209
2011	二零一一年	3,728,129	2,890,540	2,417,786	75,435

23. 投資於聯營公司(續)

註釋：(續)

(b) 本集團攤佔聯營公司的收入、業績、資產及負債如下：

24. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Unlisted investments, at cost	非上市投資的成本值	323,238	323,238	323,238	323,238
Share of results/reserves	攤佔業績/儲備	94,921	100,018	-	-
		418,159	423,256	323,238	323,238

The movement on investments in jointly controlled entities is as follows:

投資於合營公司的變動如下：

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
At 1 January	一月一日結餘	423,256	406,170	323,238	323,238
Share of results	攤佔業績	29,960	31,437	-	-
Dividend received/declared during the year	本年收到/宣告的股息	(35,057)	(14,351)	-	-
At 31 December	十二月三十一日結餘	418,159	423,256	323,238	323,238

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24. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued) 24. 投資於合營公司(續)

Particulars of the principal jointly controlled entities, all of which are limited liability companies established and operating in the PRC, are as follows:

本集團的主要合營公司均為中國成立及營運的有限責任公司，其具體情況如下：

Company 公司名稱	Place and date of establishment 成立地點及日期	Paid-up capital 實收資本		Attributable equity interest 應佔股份		Principal activities 主要業務
		2012	2011	2012	2011	
		二零一二年	二零一一年	二零一二年	二零一一年	
Shanghai Technologies Aerospace Co., Ltd. ("Technologies Aerospace") (Note (a)) 上海科技宇航有限公司(「科技宇航」) (註釋(a))	PRC 28 September 2004 中國 二零零四年 九月二十八日	USD73,000	USD73,000	51%	51%	Provision of repair and maintenance Services 提供飛機修理及維修服務
Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. ("Wheels & Brakes") 上海東聯航空機輪剎車大修工程有限公司(「機輪剎車」)	PRC 28 December 1995 中國 一九九五年 十二月二十八日	USD2,100	USD2,100	40%	40%	Provision of spare parts repair and maintenance Services 提供零件維修服務
Eastern China Kaiya System Integration Co., Ltd. 上海民航華東凱亞系統集成有限公司	PRC 21 May 1999 中國 一九九九年 五月二十一日	RMB10,000	RMB10,000	41%	41%	Provision of computer systems development and maintenance services 提供電腦系統開發和維修服務

Notes:

- (a) Under a Joint Venture Agreement with the joint venture partner of Technologies Aerospace dated 10 March 2003, the Company has agreed to share control over the economic activities of Technologies Aerospace. Any strategic financial and operating decisions relating to the activities of Technologies Aerospace require the unanimous consent of the Company and the joint venture partner.
- (b) The Group's aggregated share of the revenues, results, assets and liabilities of its jointly controlled entities is as follows:

註釋：

- (a) 根據本公司與科技宇航另一合作投資方於二零零三年三月十日簽署的聯合投資協議，本公司同意與另一合作投資方共同享有科技宇航經營活動的控制權。任何與科技宇航活動有關的財務及經營決策都要求本公司與科技宇航另一合作投資方取得一致的同意。
- (b) 本集團攤佔合營公司的收入、業績、資產及負債如下：

		Assets 資產	Liabilities 負債	Revenues 收入	Profit 利潤
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
2012	二零一二年	494,042	75,883	312,600	29,960
2011	二零一一年	524,573	101,317	287,822	31,437

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25. OTHER LONG-TERM ASSETS

25. 其他長期資產

		Group		Company	
		集團		公司	
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Deposits relating to aircraft under operating leases (Note (a))	經營性租賃飛機相關的押金(註釋(a))	807,543	749,580	251,411	262,420
Deferred pilot recruitment costs (Note (b))	遞延飛行員養成費(註釋(b))	869,082	886,177	769,908	650,822
Other long-term assets	其他長期資產	281,631	294,077	55,717	67,192
		1,958,256	1,929,834	1,077,036	980,434

Notes:

- (a) The fair values of deposits relating to aircraft held under operating leases of the Group and the Company are approximately RMB722 million and RMB219 million (2011: RMB685 million and RMB248 million), respectively, which are determined using the expected future refunds discounted at market interest rates at the year end.
- (b) Deferred pilot recruitment costs represent the cost bore by the Group in connection with securing certain minimum period of employment of pilots and are amortised on a straight-line basis over the anticipated beneficial period of five years, starting from the pilot joins the Group.

註釋：

- (a) 本集團及本公司與經營性租賃飛機相關的押金之公允價值分別為人民幣7.22億元及人民幣2.19億元(二零一一年：人民幣6.85億元及人民幣2.48億元)，其公允價值是根據預期支付款項按年末市場年利率折現計算而得。
- (b) 遞延飛行員養成費指由本集團承擔的與飛行員養成相關的支出。該些支出之目的為保證飛行員為本集團服務一定期限，並自飛行員加入本集團之日起按5年的預期受益期以直線法攤銷。

26. FLIGHT EQUIPMENT SPARE PARTS

26. 飛行設備零件

		Group		Company	
		集團		公司	
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Flight equipment spare parts	飛行設備零件	2,765,291	2,506,388	2,402,863	2,011,234
Less: provision for spare parts	減：零件跌價準備	(677,313)	(950,844)	(608,416)	(740,648)
		2,087,978	1,555,544	1,794,447	1,270,586

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realisable value. The net realisable value is estimated based on current market condition, historical experience and Company's future operation plan for the aircraft and related spare parts.

飛行設備零件跌價準備是基於賬面價值和可變現淨值的差額做出的。可變現淨值根據當前市場狀況，歷史經驗和本公司對飛機和相關零件的未來營運計劃估計得出。

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26. FLIGHT EQUIPMENT SPARE PARTS (continued) 26. 飛行設備零件(續)

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
At 1 January	一月一日結餘	950,844	986,100	740,648	780,831
Provision written off in relation to disposal of spare parts	零件處置的跌價準備核銷	(170,194)	(61,356)	-	(61,263)
Provision for/(reversal of) impairment of spare parts (Note 10(a)&(b))	零件跌價準備(沖回)/計提(註釋10(a)&(b))	(103,337)	26,100	(132,232)	21,080
At 31 December	十二月三十一日結餘	677,313	950,844	608,416	740,648

27. TRADE RECEIVABLES

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

The aging analysis of trade receivables is as follows:

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Within 90 days	九十日內	2,851,736	2,381,707	3,527,071	2,372,192
91 to 180 days	九十一日至一百八十日	68,488	79,636	37,897	46,081
181 to 365 days	一百八十一日至三百六十五日	35,995	38,382	28,799	33,885
Over 365 days	超過三百六十五日	208,770	237,356	87,537	116,794
		3,164,989	2,737,081	3,681,304	2,568,952
Less: provision for impairment of receivables	減：應收賬款減值撥備	(202,808)	(233,055)	(80,283)	(106,329)
Trade receivables	應收賬款	2,962,181	2,504,026	3,601,021	2,462,623

Balances with related companies included in trade receivables are summarised in Note 47(c)(i).

The carrying amounts of the trade receivables approximate their fair value.

Trade receivables that were neither over due nor impaired relate to a large number of independent sales agents for whom there is no recent history of default.

給予顧客的信貨額及還款期按個別情況釐定，通常由半個月至兩個月不等。

應收賬款的賬齡分析如下：

應收賬款中與關聯方相關的餘額匯總列示於附註47(c)(i)。

應收賬款的賬面價值接近其公允價值。

未逾期亦無減值的應收賬款乃與多名近期無拖欠記錄的各種客戶有關。

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27. TRADE RECEIVABLES (continued)

As at 31 December 2012, trade receivables of RMB137 million (2011: RMB101 million) were past due but not impaired. These relate to a number of independent sales agents for whom there is no recent history of default. The Group holds cash deposits of RMB680 million (2011: RMB627 million) from these agents. The ageing analysis of these trade receivables is as follows:

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Within 90 days	三個月以內	48,017	31,974	18,956	12,602
91 to 180 days	三至六個月	52,997	41,793	37,897	46,081
181 to 365 days	六至十二個月	35,995	26,920	28,799	33,885
		137,009	100,687	85,652	92,568

As at 31 December 2012, trade receivables of RMB167 million (2011: RMB198 million) were impaired and fully provided for. The remaining impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The factors considered by management in determining the impairment are described in Note 2(s).

The ageing of impaired receivables is as follows:

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
181 to 365 days over due	逾期6個月至1年	15,490	9,910	7,843	1,657
1 to 2 years over due	逾期1至2年	22,714	25,873	9,469	18,337
Over 2 years over due	逾期2年以上	186,057	211,483	78,069	99,373
		224,261	247,266	95,381	119,367

27. 應收賬款(續)

於二零一二年十二月三十一日，應收賬款人民幣1.37億元(二零一一年：人民幣1.01億元)已經逾期但並無減值。此等款項涉及多個最近沒有拖欠還款記錄的獨立客戶。對該些獨立客戶，本集團持有金額為人民幣6.80億元(二零一一年：人民幣6.27億元)押金。此等應收賬款的賬齡分析如下：

於二零一二年十二月三十一日，應收賬款人民幣1.67億元(二零一一年：人民幣1.98億元)已經減值，並已記提全額減值撥備。餘下減值的應收賬款涉及某些有財務困境的客戶，而預計只有部份應收賬款可被收回。管理層決定減值撥備的考慮因素於附註2(s)已述。

已計提減值撥備的應收賬款的賬齡如下：

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27. TRADE RECEIVABLES (continued)

Movements on the Group's provision for impairment of trade receivables are as follows:

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
At 1 January	一月一日結餘	233,055	245,961	106,329	125,553
Receivables written off during the year as uncollectible	年內列為未能收回的應收款核銷	(30,064)	(13,970)	(26,046)	(12,992)
Provision for/(reversal of) impairment of receivables	本年計提/(轉回)減值撥備	(183)	1,064	-	(6,232)
At 31 December	十二月三十一日結餘	202,808	233,055	80,283	106,329

The net impact of creation and release of provisions for impaired receivables have been included in 'Provision for impairment of trade and other receivables' in the income statement (Note 11). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Currency	貨幣				
Renminbi	人民幣	2,510,514	2,124,351	3,211,196	2,148,659
Japanese Yen	日元	161,020	140,143	161,020	133,706
US Dollars	美元	119,362	131,720	30,523	22,192
Euro	歐元	156,354	121,646	60,826	45,174
HK Dollars	港幣	66,565	121,089	66,565	121,089
Other currencies	其他貨幣	151,174	98,132	151,174	98,132
		3,164,989	2,737,081	3,681,304	2,568,952

The maximum exposure to credit risk at the reporting date is the carrying amount of receivable shown above.

27. 應收賬款(續)

應收賬款減值撥備的變動如下：

對應收款撥備的計提和撥回的淨影響已包括在利潤表中「應收賬款及其他應收款減值準備」內(附註11)。在準備賬戶中扣除的數額一般會在預期無法收回額外現金時核銷。

本集團應收賬款的賬面值按幣種列示如下：

在報告日期，信貸風險的最高風險承擔為上述應收款的賬面值。

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28. PREPAYMENTS AND OTHER RECEIVABLES

28. 預付款、存款及其他應收款

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
VAT recoverable	待抵扣增值稅	920,135	–	919,517	–
Rebate receivables on aircraft acquisitions	購入飛機所得應收回扣款	676,126	836,647	645,781	801,002
Amounts due from related companies (Note 47(c)(i))	應收有關連公司款項(附註47(c)(i))	402,844	249,865	4,577,552	2,326,225
Prepaid aircraft operating lease rentals	預付飛機經營性租賃租金	314,600	280,638	130,622	130,760
Rental deposits	租賃訂金	236,508	222,455	201,103	246,636
Others	其他	1,106,486	1,148,628	689,173	397,781
Subtotal	小計	3,656,699	2,738,233	7,163,748	3,902,404
Less: bad debt provision	減：減值撥備	(288,051)	(327,338)	(254,756)	(254,756)
		3,368,648	2,410,895	6,908,992	3,647,648

29. RESTRICTED BANK DEPOSITS AND SHORT-TERM BANK DEPOSITS

29. 限制性銀行存款和短期銀行存款

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Bank deposits with original maturity over three months but less than a year	原到期日在三個月至一年內的銀行存款	1,657,568	2,616,057	55,806	110,782
Restricted bank deposits	限制性銀行存款	68,683	278,230	53,737	249,386
		1,726,251	2,894,287	109,543	360,168

Note:

As at 31 December 2012, the deposits are primarily denominated in RMB and bore effective interest rates ranging from 2.85% to 4.65% per annum (2011: 0.5% to 5.3% per annum).

註釋：

於二零一二年十二月三十一日，存款主要是年利率2.85%至4.65%(二零一一年：0.5%至5.3%)的人民幣存款。

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29. RESTRICTED BANK DEPOSITS AND SHORT-TERM BANK DEPOSITS (continued)

The carrying amounts of the Group's and Company's restricted bank deposits and short-term bank deposits are denominated in the following currencies:

29. 限制性銀行存款和短期銀行存款 (續)

集團和本公司的限制性銀行存款和短期銀行存款的賬面價值按幣種列示如下：

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Renminbi	人民幣	1,625,891	2,837,308	9,183	306,475
Japanese Yen	日元	39,724	24,637	39,724	24,637
US Dollars	美元	16,082	16,145	16,082	16,145
HK Dollars	港幣	15,973	6,895	15,973	6,895
Euro	歐元	9,818	9,302	9,818	6,016
Other currencies	其他貨幣	18,763	-	18,763	-
		1,726,251	2,894,287	109,543	360,168

30. CASH AND CASH EQUIVALENTS

The carrying amounts of the Group's and Company's cash and cash equivalents are denominated in the following currencies:

30. 現金及現金等價物

本集團及本公司現金及現金等價物的賬面價值按幣種列示如下：

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Renminbi	人民幣	1,933,933	3,249,932	152,173	326,408
US Dollars	美元	372,388	520,976	263,523	453,753
Euro	歐元	38,172	19,753	35,431	7,938
Japanese Yen	日元	30,451	5,425	30,267	1,021
Hong Kong Dollars	港幣	25,528	26,219	25,110	25,412
Others	其他貨幣	111,224	38,668	110,918	37,480
		2,511,696	3,860,973	617,422	852,012

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31. TRADE PAYABLES AND NOTES PAYABLE

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

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Within 90 days	九十日以內	1,473,087	1,761,478	6,776,696	2,400,602
91 to 180 days	九十一日至一百八十日	397,815	217,331	17,467	620,039
181 to 365 days	一百八十一日至 三百六十五日	675,630	409,475	420,700	243,903
1 to 2 years	一至兩年	378,922	153,498	272,317	85,094
Over 2 years	超過兩年	149,871	150,842	71,162	130,471
		3,075,325	2,692,624	7,558,342	3,480,109

As at 31 December 2012, the trade payables and notes payable balances of the Group and the Company included amounts due to related companies of RMB1,950 million (2011: RMB1,216 million) and RMB7,175 million (2011: RMB2,925 million) respectively (Note 47(c)(ii)).

As at 31 December 2012, notes payable amounted to RMB250 million (2011: RMB48 million), which were unsecured, bore effective interest rates ranging from 4.65% to 4.68% per annum (2011: 6% to 8%) and are repayable within six months.

31. 應付賬款及應付票據

應付賬款及應付票據的賬齡分析如下：

於二零一二年十二月三十一日，本集團和本公司應付賬款及應付票據餘額中應付關聯公司餘額分別為人民幣19.50億元(二零一一年：人民幣12.16億元)和人民幣71.75億元(二零一一年：人民幣29.25億元)(附註47(c)(ii))。

於二零一二年十二月三十一日，應付票據總額為人民幣2.50億元(二零一一年：人民幣0.48億元)，無擔保，年利率為4.65%至4.68%(二零一一年：6%至8%)，並將於六個月內支付。

32. OTHER PAYABLES AND ACCRUED EXPENSES

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Accrued salaries, wages and benefits	預提工資、薪金及福利	2,210,517	2,657,376	1,361,547	1,590,845
Accrued take-off and landing charges	預提飛機起降費用	2,127,855	1,885,898	681,157	695,207
Accrued fuel cost	預提飛機航油費用	2,175,948	2,223,904	1,219,983	1,326,225
Accrued expenses related to aircraft overhaul conducted	預提已發生的飛機大修費用	1,675,056	1,941,007	871,867	1,087,209
Duties and levies payable	關稅及應付稅費	1,574,574	1,750,389	917,995	1,030,312
Other accrued operating expenses	預提其他營運費用	2,038,930	1,571,843	1,061,784	1,030,312
Deposits received from ticket sales agents	從票務銷售代理收取的訂金	680,318	627,006	298,690	368,149
Current portion of other long-term liabilities (Note 36)	其他長期負債的流動部份(附註36)	314,996	398,701	184,183	249,259
Staff housing allowance (Note 39(b))	職工住房補貼(附註39(b))	391,358	389,719	242,614	262,964
Amounts due to related companies (Note 47(c)(ii))	應付有關連公司款項(附註47(c)(ii))	194,884	96,590	2,412,228	1,101,154
Current portion of post-retirement benefit obligations (Note 38(b))	退休後福利準備的流動部份(附註38(b))	85,800	83,483	70,051	70,327
Other payables	其他	2,785,989	2,641,371	1,765,172	1,849,389
		16,256,225	16,267,287	11,087,271	10,661,352

32. 其他應付款及預提費用

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33. OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2012, the Group and the Company had 98 and 72 aircraft (2011: 80 and 60 aircraft), respectively, under finance leases. Under the terms of the leases, the Group and the Company has the option to purchase, at or near the end of the lease terms, certain aircraft at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

The future minimum lease payments (including interest), and the present value of the minimum lease payments under finance leases are as follows:

33. 融資租賃負債

於二零一二年十二月三十一日，本集團及本公司以融資租賃方式分別租入飛機98架和72架(二零一一年：80架和60架)。根據租賃條款，本集團及本公司有權於租賃期滿或接近屆滿時，以市場公平價值或由有關出租人釐定的成本購買其中某些飛機。融資租賃負債主要以美元為單位計值。

融資租賃最低租金(包括利息)及最低租金的現值分列如下：

		Group 集團			2011 二零一一年		
		2012 二零一二年		Present value of minimum lease payments 最低租金 之現值	Minimum lease payments 最低租金	Interest 利息	Present value of minimum lease payments 最低租金 之現值
		Minimum lease payments 最低租金 RMB'000 人民幣千元	Interest 利息 RMB'000 人民幣千元	RMB'000 人民幣千元	Minimum lease payments 最低租金 RMB'000 人民幣千元	Interest 利息 RMB'000 人民幣千元	RMB'000 人民幣千元
Within one year	一年內	3,004,452	399,183	2,605,269	2,790,844	331,585	2,459,259
In the second year	第二年	3,059,744	355,576	2,704,168	2,846,797	288,703	2,558,094
In the third to fifth year inclusive	第三年至第五年(包括首尾兩年)	8,685,669	760,777	7,924,892	7,836,047	600,836	7,235,211
After the fifth year	五年以後	9,027,940	404,291	8,623,649	8,448,826	440,568	8,008,258
Total	總額	23,777,805	1,919,827	21,857,978	21,922,514	1,661,692	20,260,822
Less: amount repayable within one year	減：一年內償還部份	(3,004,452)	(399,183)	(2,605,269)	(2,790,844)	(331,585)	(2,459,259)
Long-term portion	長期部份	20,773,353	1,520,644	19,252,709	19,131,670	1,330,107	17,801,563

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33. OBLIGATIONS UNDER FINANCE LEASES 33. 融資租賃負債(續)

(continued)

		Company 公司					
		2012 二零一二年			2011 二零一一年		
		Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
		最低租金	利息	之現值	最低租金	利息	之現值
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Within one year	一年內	2,306,694	328,676	1,978,018	2,278,734	267,746	2,010,988
In the second year	第二年	2,348,170	300,158	2,048,012	2,298,934	226,849	2,072,085
In the third to fifth year inclusive	第三年至第五年(包括首尾兩年)	6,776,545	662,500	6,114,045	6,190,003	471,306	5,718,697
After the fifth year	五年以後	7,707,677	371,542	7,336,135	6,690,780	358,378	6,332,402
Total	總額	19,139,086	1,662,876	17,476,210	17,458,451	1,324,279	16,134,172
Less: amount repayable within one year	減：一年內 償還部份	(2,306,694)	(328,676)	(1,978,018)	(2,278,734)	(267,746)	(2,010,988)
Long-term portion	長期部份	16,832,392	1,334,200	15,498,192	15,179,717	1,056,533	14,123,184

The fair value of obligations under finance leases of the Group and the Company are RMB22,883 million and RMB18,353 million (2011: RMB20,866 million and RMB16,599 million), respectively, which are determined using the expected future payments discounted at market interest rates prevailing at the year end.

本集團及本公司融資租賃負債之公允值分別為人民幣22.83億元及人民幣18.353億元(二零一一年：人民幣20.866億元及人民幣16.599億元)，其公允值是根據預期支付款項按年末市場利率折現計算而得。

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34. BORROWINGS

34. 借款

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Non-current	非流動部份				
Long-term bank borrowings	長期銀行借款				
– secured (Note (a))	– 有抵押(註釋(a))	15,780,892	11,988,500	10,621,656	6,439,802
– unsecured (Note (b))	– 無抵押(註釋(b))	4,815,271	9,114,963	4,465,678	8,745,066
Guaranteed bonds (Note (c))	有擔保債券(註釋(c))	2,500,000	2,500,000	–	–
		23,096,163	23,603,463	15,087,334	15,184,868
Current	流動部份				
Long-term bank borrowings	長期銀行借款				
– secured (Note (a))	– 有抵押(註釋(a))	2,612,055	1,973,744	1,772,886	983,602
– unsecured (Note (b))	– 無抵押(註釋(b))	7,147,656	4,743,506	7,007,649	4,081,231
Short-term bank borrowings	短期銀行借款				
– secured (Note (a))	– 有抵押(註釋(a))	–	221,948	–	221,948
– unsecured (Note (b))	– 無抵押(註釋(b))	8,880,244	11,231,932	7,555,262	9,543,699
Short-term debentures (Note (d))	短期融資券(註釋(d))	4,000,000	–	4,000,000	–
		22,639,955	18,171,130	20,335,797	14,830,480
Total borrowings	借款總額	45,736,118	41,774,593	35,423,131	30,015,348
The borrowings are repayable as follows:	銀行借款應於下列期間內償還:				
Within one year	一年內	22,639,955	18,171,130	20,335,797	14,830,480
In the second year	第二年	7,272,821	8,407,984	3,880,837	7,335,988
In the third to fifth year inclusive	第三年至第五年 (包括首尾兩年)	7,905,631	9,391,440	5,536,565	4,484,140
After the fifth year	五年以後	7,917,711	5,804,039	5,669,932	3,364,740
Total borrowings	借款總額	45,736,118	41,774,593	35,423,131	30,015,348

Notes:

- (a) As at 31 December 2012, the secured bank borrowings of the Group and the Company were pledged by the related aircraft and buildings with an aggregate net book amount of RMB22,544 million and RMB15,078 million respectively (2011: RMB18,317 million and RMB10,005 million) (Note 19).
- (b) Certain unsecured bank borrowings of the Group totaling of RMB95 million (2011: RMB228 million) were guaranteed by CEA Holding (Note 47(c)).
- (c) On 1 August 2011, Eastern Air Overseas (Hong Kong) Corporation Limited ("Eastern Air Overseas HK"), a wholly owned subsidiary of the Company, issued three-year guaranteed bonds with a principal amount of RMB2.5 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 4% per annum, which is payable semi-annually. The principle of the bonds will mature and be repayable on 8 August 2014.
- The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.
- (d) On 13 September 2012, the Company issued short-term debentures with a principal of RMB4 billion. The debentures bear interest at the rate of 4.1% per annum. The principal and interest will mature and be repayable on 10 June 2013.

註釋:

- (a) 於二零一二年十二月三十一日，本集團及本公司的抵押借款以若干飛機及樓宇作抵押物，其賬面價值分別為人民幣225.44億元及人民幣150.78億元(二零一一年：人民幣183.17億元及人民幣100.05億元)(附註19)。
- (b) 本集團部份非抵押銀行貸款計人民幣0.95億元(二零一一年：人民幣2.28億元及)由中國東航集團提供擔保(附註47(c))。
- (c) 於二零一一年八月一日，本公司之全資附屬公司東航海外(香港)有限公司(「海外香港」)按照面值發行人民幣25億元的3年期有擔保債券，年利率為4%，每半年付息一次。此債券將在到期日二零一四年八月八日按照面值贖回。
- 本公司為上述債券提供無條件及不可撤回擔保。
- (d) 於二零一二年九月十三日，本公司發行人民幣40億元的短期融資券，年利率為4.1%。本金和利息將在二零一三年六月十日期滿並償還。

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34. BORROWINGS (continued)

The terms of the long-term borrowings are summarised as follows:

34. 借款(續)

長期借款的條款概括如下：

Currency 幣種	Interest rate and final maturities 借款利率及到期日	Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Long-term bank borrowings					
長期銀行借款					
RMB denominated 人民幣	interest rate ranging from 4.86% to 6.4% with final maturities through to 2020 年利率介於4.86%至6.4%不等，借款至2020年最後到期	3,953,340	8,844,130	3,593,300	7,378,300
USD denominated 美元	interest rate ranging from libor 6 + 0.03% to libor 6 + 5.3% with final maturities through to 2022 年利率介於6個月LIBOR + 0.03%至6個月LIBOR + 5.3%不等，借款至2022年最後到期	26,402,534	18,976,583	20,274,569	12,871,401
Guaranteed bonds					
擔保債權					
RMB denominated 人民幣	interest rate of 4.00% with final maturities through to 2014 年利率4.0%，借款至2014年最後到期	2,500,000	2,500,000	-	-
Total long term borrowings 長期借款總計		32,855,874	30,320,713	23,867,869	20,249,701

The fair value of long-term borrowing of the Group and the Company are RMB32,881 million and RMB24,059 million (2011: RMB30,363 million and RMB20,706 million), respectively, which are determined using the expected future payments discounted at prevailing market interest rates available to the Group and the Company for financial instruments with substantially the same terms and characteristics at the balance sheet date.

本集團及本公司的長期借款之公允價值分別為人民幣328.81億元及人民幣240.59億元(二零一一年：人民幣303.63億元及人民幣207.06億元)，其公允價值乃根據預期支付款項，以及於資產負債表日本集團和本公司可獲得的相同條款及特徵金融工具主要市場利率來折現計算。

Short-term borrowings of the Group and the Company are repayable within one year. As at 31 December 2012, the interest rates relating to such borrowings were ranged from 1.11% to 6.56% per annum (2011: 1.30% to 6.31% per annum).

本集團及本公司的短期借款均為一年以內償還的借款。於二零一二年十二月三十一日，短期借款的年利率介於1.11%至6.56%(二零一一年：1.30%至6.31%)。

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34. BORROWINGS (continued)

The carrying amounts of the borrowings are denominated in the following currencies:

34. 借款(續)

借款的賬面金額以下列貨幣為單位：

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Renminbi	人民幣	13,827,340	16,779,919	9,943,300	11,428,300
US Dollars	美元	31,605,345	24,994,674	25,176,398	18,587,048
Japanese Yen	日元	303,433	–	303,433	–
		45,736,118	41,774,593	35,423,131	30,015,348

35. PROVISION FOR RETURN CONDITION CHECKS FOR AIRCRAFT UNDER OPERATING LEASES

35. 經營租賃飛機退租檢修準備

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
At 1 January	一月一日結餘	3,299,126	2,814,503	1,721,095	1,517,071
Additional provisions	本年計提	872,770	801,309	209,772	262,569
Utilisation	本年度支付	(373,134)	(316,686)	(168,233)	(58,545)
At 31 December	十二月三十一日結餘	3,798,762	3,299,126	1,762,634	1,721,095
Less: current portion	減：流動部份	(734,205)	(375,409)	(88,081)	(174,151)
Long-term portion	長期部份	3,064,557	2,923,717	1,674,553	1,546,944

In respect of aircraft and engines under operating leases, the Group has obligations to fulfill certain return conditions under the leases. The balance as at 31 December 2012 represents the provision for the estimated cost of these return condition checks which is made on a straight line basis over the term of the leases.

對於經營租賃的飛機和發動機，本集團有義務滿足有關租賃規定的交還條件。二零一二年十二月三十一日的餘額是按租賃條款以直線法預計的退租檢修準備金。

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36. OTHER LONG-TERM LIABILITIES

36. 其他長期負債

		Group		Company	
		集團	公司	集團	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Fair value of unredeemed points awarded under the Group's frequent flyer program	常旅客計劃尚未兌換獎勵積分的公允價值	1,624,248	1,424,709	940,147	815,183
Long-term duties and levies payable relating to finance leases	融資租賃的長期應付關稅及其他稅項	209,727	908,406	114,934	674,238
Other long-term payables	其他長期應付款	116,558	112,685	91,821	91,649
		1,950,533	2,445,800	1,146,902	1,581,070
Less: current portion included in other payables and accrued expenses (Note 32)	減：計入其他應付款和預提費用中的流動部份(附註32)	(314,996)	(398,701)	(184,183)	(249,259)
Long-term portion	長期部份	1,635,537	2,047,099	962,719	1,331,811

37. DEFERRED TAXATION

37. 遞延稅項

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of offsetting and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

當有法定權利可將稅項抵銷，且涉及同一管轄機構，則可將遞延稅項資產與遞延稅項負債互相抵銷。抵銷後，按下列金額在資產負債表內列示：

		Group		Company	
		集團	公司	集團	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Deferred tax assets	遞延稅項資產				
- Deferred tax asset to be utilised after 12 months	- 12個月以上可實現的遞延稅項資產	53,708	41,687	-	-
- Deferred tax asset to be utilised within 12 months	- 12個月以內可實現的遞延稅項資產	853	2,731	-	-
		54,561	44,418	-	-
Deferred tax liabilities	遞延稅項負債				
- Deferred tax liability to be realised after 12 months	- 12個月以上可實現的遞延稅項負債	(29,326)	(29,326)	-	-
Net deferred tax assets	遞延稅項資產淨額	25,235	15,092	-	-

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37. DEFERRED TAXATION (continued)

Movements in the net deferred tax assets are as follows:

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
At 1 January	一月一日結餘	15,092	23,374	-	-
Charged to income statement (Note 14)	計入利潤表(附註14)	10,143	(8,282)	-	-
At 31 December	十二月三十一日結餘	25,235	15,092	-	-

37. 遞延稅項(續)

遞延稅項淨資產的變動如下：

The deferred tax assets and liabilities (prior to the offsetting of balances within the same tax jurisdiction) were made up of the taxation effects of the following:

遞延稅項資產及負債在同一稅法機構下抵銷前的結餘有以下的稅務影響組成：

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Deferred tax assets:	遞延稅項資產：				
Impairment provision for obsolete flight equipment spare parts	飛機設備零件的跌價準備	40,408	70,071	36,380	64,951
Impairment provision for receivables	應收款減值準備	23,950	34,745	20,034	31,537
Impairment provision for property, plant and equipment	物業、機器及設備減值準備	43,222	78,286	39,123	74,187
Derivative financial liabilities	交易性金融負債	20,339	29,201	20,339	29,201
Provision for post-retirement benefits	退休後福利準備	196,580	230,361	154,062	198,370
		324,499	442,664	269,938	398,246
Deferred tax liabilities:	遞延稅項負債：				
Depreciation and amortisation	折舊及攤銷	(294,745)	(426,481)	(265,419)	(397,155)
Derivative financial assets	交易性金融資產	(4,519)	(1,091)	(4,519)	(1,091)
		(299,264)	(427,572)	(269,938)	(398,246)
		25,235	15,092	-	-

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37. DEFERRED TAXATION (continued)

Movements of the net deferred tax assets of the Group for the year:

37. 遞延稅項(續)

遞延稅項淨資產的變動如下：

		At the beginning of the year	(Charged)/ credited to income statement 利潤表 (借項)/貸項	At the end of the year
		年初餘額 RMB'000 人民幣千元	RMB'000 人民幣千元	年末餘額 RMB'000 人民幣千元
For the year ended 31 December 2012	二零一二年			
Impairment provision for obsolete flight equipment spare parts	飛機設備零件的跌價準備	70,071	(29,663)	40,408
Impairment provision for receivables	應收款減值準備	34,745	(10,795)	23,950
Impairment provision for property, plant and equipment and construction in progress	物業、機器及設備和在建工程減值準備	78,286	(35,064)	43,222
Derivative financial liabilities	交易性金融負債	29,201	(8,862)	20,339
Provision for post-retirement benefits	退休後福利準備	230,361	(33,781)	196,580
		442,664	(118,165)	324,499
Depreciation and amortisation	折舊及攤銷	(426,481)	131,736	(294,745)
Derivative financial assets	交易性金融資產	(1,091)	(3,428)	(4,519)
		(427,572)	128,308	(299,264)
Net deferred tax assets	遞延稅項資產淨額	15,092	10,143	25,235

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37. DEFERRED TAXATION (continued)

37. 遞延稅項(續)

		At the beginning of the year	(Charged)/ credited to income statement	At the end of the year
		年初餘額	利潤表 (借項)/貨項	年末餘額
		RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元
For the year ended 31 December 2011	二零一一年度			
Impairment provision for obsolete flight equipment spare parts	飛機設備零件的跌價準備	83,365	(13,294)	70,071
Impairment provision for receivables	應收款減值準備	69,063	(34,318)	34,745
Impairment provision for property, plant and equipment and construction in progress	物業、機器及設備和在建工程減值準備	128,226	(49,940)	78,286
Provision for return condition checks for aircraft under operating leases	經營租賃飛機退租檢修準備	93,740	(93,740)	—
Provision for frequent flyer programs	常旅客獎勵計劃準備	44,001	(44,001)	—
Derivative financial liabilities	交易性金融負債	29,526	(325)	29,201
Provision for post-retirement benefits	退休後福利準備	245,026	(14,665)	230,361
		692,947	(250,283)	442,664
Depreciation and amortisation	折舊及攤銷	(652,521)	226,040	(426,481)
Derivative financial assets	交易性金融資產	(17,052)	15,961	(1,091)
		(669,573)	242,001	(427,572)
Net deferred tax assets	遞延稅項資產淨額	23,374	(8,282)	15,092

As at the balance sheet date, the Group and the Company had following balances in respect of which no deferred tax asset has been recognised:

於資產負債表日，本集團及本公司的未確認遞延稅項資產的相關餘額列示如下：

		Group 集團			
		2012 二零一二年		2011 二零一一年	
		Deferred taxation 遞延稅項 RMB'000 人民幣千元	Temporary differences 暫時性差異 RMB'000 人民幣千元	Deferred taxation 遞延稅項 RMB'000 人民幣千元	Temporary differences 暫時性差異 RMB'000 人民幣千元
Tax losses carried forward	可抵扣稅務虧損	1,542,223	6,168,893	2,428,143	9,712,570
Other deductible temporary differences	其他可抵扣暫時性差異	970,616	3,882,464	971,951	3,887,804
Total unrecognized deferred tax assets	未確認遞延稅項資產合計	2,512,839	10,051,357	3,400,094	13,600,374

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37. DEFERRED TAXATION (continued)

37. 遞延稅項(續)

		Company 公司			
		2012 二零一二年		2011 二零一一年	
		Deferred taxation 遞延稅項 RMB'000 人民幣千元	Temporary differences 暫時性差異 RMB'000 人民幣千元	Deferred taxation 遞延稅項 RMB'000 人民幣千元	Temporary differences 暫時性差異 RMB'000 人民幣千元
Tax losses carried forward	可抵扣稅務虧損	966,430	3,865,719	1,544,268	6,177,072
Other deductible temporary differences	其他可抵扣暫時性差異	858,662	3,434,648	737,072	2,948,288
Total unrecognised deferred tax assets	未確認遞延稅項資產合計	1,825,092	7,300,367	2,281,340	9,125,360

In accordance with the PRC tax law, tax losses can be carried forward, for a period of five years, to offset against future taxable income. The Group and the Company's tax losses carried forward will expire between 2013 and 2017.

As at 31 December 2012, management carried out an assessment to determine whether future taxable profits will be available to utilise the tax losses and deductible temporary differences. As there are still uncertainties around the Group's future operation results, such as future fuel prices and market competition, management assessed that there are significant uncertainties that future taxable profits will be available and the deferred tax assets arisen from aforementioned tax losses and deductible temporary difference were not recognised.

根據中國稅法，稅務虧損可於五年內沖銷未來應課稅收入。本集團與本公司的稅務虧損將於二零一三年至二零一七年間到期。

於二零一二年十二月三十一日，管理層對未來是否可產生應稅利潤以利用上述可抵扣暫時性差異及稅務虧損進行了評估。由於本集團未來經營結果受航油價格及市場競爭等不確定性因素的影響，管理層認為上述可抵扣暫時性差異及稅務虧損在其到期前可被利用的不確定性很大，故未確認對應的遞延所得稅資產。

38. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS

38. 退休金計劃及僱員退休後的福利

(a) Defined contribution retirement schemes

(a) 定額供款退休金計劃

(i) Pension

The Group companies participate in defined contribution retirement schemes organised by municipal governments of various provinces in which the Group companies operate. Substantially all of the Group's PRC employees are eligible to participate in the Group companies' retirement schemes. The Group companies are required to make annual contributions to the schemes at rates ranging from 20% to 22% on the employees' salary and allowances subject to certain ceiling as set up by the relevant municipal governments. Employees are required to contribute to the schemes at rates ranging from 7% to 8% of their salaries. For the year ended 31 December 2012, the Group's pension cost charged to the consolidated income statement amounted to RMB871 million (2011: RMB768 million).

(i) 養老金

本集團在其營運地區參與當地省市政府管轄的定額供款的養老金計劃。本集團大多數中國僱員符合參與本集團的養老金計劃之條件。本集團需按薪金及津貼金額20%至22%交納供款額，並以相關市政府所設定最高額為限。僱員則按其基本薪金的7%至8%交納供款。截至二零一二年十二月三十一日止年度，本集團在該計劃下已計入合併利潤表的養老金供款費用為人民幣8.71億元(二零一一年：人民幣7.68億元)。

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38. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS (continued)

(a) Defined contribution retirement schemes (continued)

(ii) Medical insurance

Majority of the Group's PRC employees participate in the medical insurance schemes organised by municipal governments, under which the Group companies and their employees are required to contribute to the schemes approximately 12% and 2%, respectively, of the employee's basic salaries subject to certain ceiling as set up by the relevant municipal governments. For those employees who participate in these schemes, the Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended 31 December 2012, the Group's medical insurance contributions charged to the consolidated income statement amounted to RMB391 million (2011: RMB374 million).

(b) Post-retirement benefits

In addition to the above defined contribution retirement schemes, the Group provides retirees with other post-retirement benefits, including transportation subsidies, social function activities subsidies and other welfares. The expected cost of providing these post-retirement benefits is actuarially determined and recognised by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and employees' turnover ratio.

The post-retirement benefit obligations recognised in the balance sheets are as follows:

38. 退休金計劃及僱員退休後的福利 (續)

(a) 定額供款退休金計劃(續)

(ii) 醫療保險

本集團大部份中國僱員參加了各地政府組織的醫療保險計劃，本集團及僱員須分別按相關市政府所設定基本薪金約12%及2%向計劃供款，並以相關市政府所設定最高額為限。除此供款外，本集團對參加計劃的僱員並無其他醫療費用責任。截至二零一二年十二月三十一日止年度，本集團於合併利潤表中列賬的醫療保險為人民幣3.91億元(二零一一年：人民幣3.74億元)。

(b) 退休後的福利

除上述的養老金計劃外，本集團提供退休僱員福利包括交通津貼、社交活動津貼以及其他福利。退休後福利所產生的費用按「預計福利按服務年期攤分法」精算估值計算，並以數項假設及估計為基準，當中包括通脹率、折現率及僱員流失率等。

在資產負債表中所確認的退休後福利費用準備如下：

		Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Present value of funded post-retirement benefit obligations	設基金的僱員退休後福利費用準備的現值	343,871	350,210	-	-
Fair value of plan assets	計畫資產的公允價值	(89,819)	(92,450)	-	-
Present value of unfunded post-retirement benefit obligations	不設基金的僱員退休後福利費用準備的現值	5,979,600	5,826,053	5,066,745	5,032,085
Unrecognised actuarial losses	未確認的精算損失	(2,888,323)	(3,140,385)	(2,488,244)	(2,770,036)
Post-retirement benefit obligations	僱員退休後福利費用準備	3,345,329	2,943,428	2,578,501	2,262,049
Less: current portion (Note 32)	減：流動部份(附註32)	(85,800)	(83,483)	(70,051)	(70,327)
Long-term portion	長期部份	3,259,529	2,859,945	2,508,450	2,191,722

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38. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS (continued) 38. 退休金計劃及僱員退休後的福利 (續)

(b) Post-retirement benefits (continued)

Changes in post-retirement benefit obligations are as follows:

		Group		Company	
		集團		公司	
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
At 1 January	一月一日結餘	2,943,428	2,617,284	2,262,049	1,946,006
Costs charged in the income statement	計入利潤表的有關費用	581,775	478,502	460,124	438,829
Payments	支付額	(179,874)	(152,358)	(143,672)	(122,786)
At 31 December	十二月三十一日結餘	3,345,329	2,943,428	2,578,501	2,262,049

The costs of post-retirement benefits are recognised under wages, salaries and benefits in the income statements as follows:

		Group		Company	
		集團		公司	
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Current service cost	當期服務費用	193,936	170,493	136,179	170,444
Interest cost	利息費用	270,177	224,064	217,457	182,737
Actuarial losses recognised	確認的精算損失	124,184	90,643	106,488	85,648
Estimated return on planned asset	計畫資產預期回報	(6,522)	(6,698)	-	-
Total (Note 9)	總額(附註9)	581,775	478,502	460,124	438,829

The principal actuarial assumptions at the balance sheet date are as follows:

		Group and Company	
		集團及公司	
		2012	2011
		二零一二年	二零一一年
Discount rate	折現率	4.30%-4.35%	4.20%-4.25%
Annual rate of increase of per capita benefit payment	支付僱員福利的每年增長率	3%-5%	3%-5%
Employee turnover rate	僱員流失率	3%-3.25%	3%-3.25%
Mortality rate	死亡率	9.83%	9.83%
Medical inflation rate	醫療通脹率	5.00%	5.00%

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39. STAFF HOUSING BENEFITS

(a) Staff housing fund

In accordance with the PRC housing reform regulations, the Group is required to contribute to the State-sponsored housing fund for its employees at rates ranging from 7% to 15% (2011: 7% to 15%) of the specified salary amounts of its PRC employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. For the year ended 31 December 2012, the Group's contributions to the housing funds amounted to RMB607 million (2011: RMB545 million) which has been charged to the consolidated income statement. The staff housing fund payable as at 31 December 2012 is RMB52 million (2011: RMB28 million). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Staff housing allowances

The Group also provides staff housing allowances in cash to eligible employees. The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation or retirement, his or her entitlement would cease and any unpaid entitlement related to past service up to the date of resignation or retirement would be paid. As at 31 December 2012, the present obligation of the provision for employee's staff housing allowances is RMB391 million (2011: RMB390 million).

For the year ended 31 December 2012, the staff housing benefit amounted to RMB171 million (2011: RMB171 million) which has been charged to the consolidated income statement.

39. 職工住房補貼

(a) 員工住房基金

根據中國住房政策，本集團需按國內員工薪金的7%至15%(二零一一年：7%至15%)供款至國家安排的住房基金中。同時，員工亦須從其薪金中，與本公司作出等值的供款。在若干特定情形員工有權提取全額供款。於截至二零一二年十二月三十一日止年度內，本集團計入合併利潤表的職工住房基金的供款計人民幣6.07億元(二零一一年：人民幣5.45億元)。截至二零一二年十二月三十一日，本集團應付職工住房基金準備餘額為人民幣0.52億元(二零一一年：人民幣0.28億元)。若基金的資產不足以支付僱員提供服務的當期及前期利益時，本集團並無法律性或推定性的責任填補不足。

(b) 員工住房補貼

本集團同時以現金方式向符合資格的員工提供員工住房補貼。受益期原則上為二十年，當符合資格員工離職或退休時，其補貼將停止計算，任何以往年度有關的未支付補貼將在其離職或退休時支付。截至二零一二年十二月三十一日，員工住房補貼準備的現值為人民幣3.91億元(二零一一年：人民幣3.90億元)。

截至二零一二年十二月三十一日止年度，計人民幣1.71億元(二零一一年：人民幣1.71億元)員工住房補貼於合併利潤表中列支。

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40. DERIVATIVES FINANCIAL INSTRUMENTS

40. 金融衍生工具

		Group and Company 集團及公司			
		Assets 資產		Liabilities 負債	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
At 31 December	十二月三十一日結餘				
Interest rate swaps (Note (a))	利率互換合約(註釋(a))	-	4,279	295,005	267,909
Forward foreign exchange contracts (Note (b))	外匯遠期合約(註釋(b))	18,074	86	45,146	65,075
Total	合計	18,074	4,365	340,151	332,984
Less: current portion	減：流動部份				
- Interest rate swaps	- 利率互換合約	-	-	-	-
- Forward foreign exchange	- 外匯遠期合約	(18,074)	-	(35,813)	(51,063)
		(18,074)	-	(35,813)	(51,063)
Non-current portion	非流動部份	-	4,365	304,338	281,921

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheets.

在報告日期，信貸風險的最高風險承擔為資產負債表內衍生資產的公允價值。

Notes:

註釋：

(a) Interest rate swaps

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3(a)(ii)). The interest rate swaps entered into by the Group for swapping variable rates, usually referenced to LIBOR, into fixed rates are accounted for as cash flow hedges. Other interest rate swaps are accounted for as fair value hedges. As at 31 December 2012, the notional amount of the outstanding interest rate swap agreements was approximately US\$929 million (2011: US\$695 million). These agreements will expire between 2013 and 2022.

Realised and unrealised gains and losses arising from the valuation of these interest rate swaps have been dealt with in the income statements as follows:

(a) 利率互換合約

本集團通過利率互換減低市場利率變動的風險(附註3(a)(ii))。本集團簽訂的利率互換合約將與LIBOR相關的浮動利率轉換為固定利率的利率互換合約，屬於現金流量套期，其他合約為公允價值套期。於二零一二年十二月三十一日，本集團仍持有尚未交易的利率互換合約的名義金額約為9.29億美元(二零一一年：6.95億美元)，並將於二零一三年至二零二二年間到期。

本年度已實現及未實現利率互換合約實際交割損益及公允價值變動列示於利潤表如下：

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Realised losses (recorded in finance costs)	已實現損失(計入財務費用)	(99,169)	(118,016)
Unrealised mark to market losses	未實現損失		
- cash flow hedges (recognised in equity)	- 現金流量套期(計入資本公積)	(47,128)	(133,526)
- fair value hedges (recognised in gain on fair value movements of derivatives financial instruments)	- 公允價值套期(計入衍生金融工具公允價值變動損益)	15,755	9,062
		(130,542)	(242,480)

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40. DERIVATIVES FINANCIAL INSTRUMENTS (continued) 40. 金融衍生工具(續)

Notes: (continued)

註釋：(續)

(b) Forward foreign exchange contracts

The Group uses forward foreign exchange contracts to reduce the risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3(a)(i)). The Group's forward foreign exchange contracts for selling Japanese Yen and purchasing U.S. dollars at fixed exchange rates are accounted for as cash flow hedges. Other forward foreign exchange contracts are accounted for as fair value hedges. As at 31 December 2012, the notional amount of the outstanding currency forward contracts was approximately US\$58 million (2011: US\$46 million), which will expire between 2013 and 2017.

Realised and unrealised gains and losses arising from the valuation of these contracts have been dealt with in the income statements as follows:

(b) 外匯遠期合約

本集團通過外匯遠期合約來降低機票銷售外匯收入及需以外匯支付的費用相關的匯率波動風險(附註3(a)(i))。本集團簽訂的以固定匯率銷售日元或買入美元的外匯遠期合約，屬於現金流量套期，其他外匯遠期合約為公允價值套期。於二零一二年十二月三十一日，本集團持有尚未交易的外匯套期合約的名義金額約為0.58億美元(二零一一年：0.46億美元)，並將於二零一三年至二零一七年間到期。

本年度已實現及未實現外匯遠期合約實際交割損益及公允價值變動列示於利潤表如下：

		Group 集團	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Realised losses (recorded in finance income)	已實現損失(計入財務費用)	(12,407)	(10,406)
Unrealised mark to market gains	未實現收益		
– cash flow hedges (recognised in equity)	– 現金流量套期(計入資本公積)	37,917	1,080
– fair value hedges (recognised in gain on fair value movements of derivatives financial instruments)	– 公允價值套期(計入衍生金融工具公允價值變動損益)	–	10,479
		25,510	1,153

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41. FINANCIAL INSTRUMENTS BY CATEGORY

41. 金融工具(按類別)

(a) Group

(a) 集團

Assets as per balance sheet 資產負債表日的資產		Loans and receivables	Assets at fair value through the profit and loss 以公允價值計量且其變動計入損益的資產	Derivatives used for hedging 用作套期的衍生工具	Available-for-sale 可供出售金融資產	Total 總計
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
Balance 31 December 2012	二零一二年十二月三十一日					
Available-for-sale financial assets	可供出售金融資產	-	-	-	234,690	234,690
Derivative financial instruments	衍生工具	-	-	18,074	-	18,074
Trade receivables	應收賬款	2,962,181	-	-	-	2,962,181
Prepayments and other receivables excluding prepayments	預付款及除預付款以外的其他應收款	2,544,967	-	-	-	2,544,967
Restricted bank deposits and short-term bank deposits	限制性銀行存款和短期銀行存款	1,726,251	-	-	-	1,726,251
Cash and cash equivalents	現金及現金等價物	2,511,696	-	-	-	2,511,696
Total	總計	9,745,095	-	18,074	234,690	9,997,859

Liabilities as per balance sheet 資產負債表日的負債		Loans and receivables	Liabilities at fair value through the profit and loss 以公允價值計量且其變動計入損益的負債	Derivatives used for hedging 用作套期的衍生工具	Other financial liabilities at amortised cost 攤餘成本計量的其他金融負債	Total 總計
		RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元	RMB'000 人民幣千元
Balance 31 December 2012	二零一二年十二月三十一日					
Borrowings	借款	45,736,118	-	-	-	45,736,118
Obligations under finance leases	融資租賃負債	21,857,978	-	-	-	21,857,978
Derivative financial instruments	衍生工具	-	-	340,151	-	340,151
Trade payables and notes payable	應付賬款及應付票據	3,075,325	-	-	-	3,075,325
Other payables and accrued expenses	其他應付款及預提費用	16,256,225	-	-	-	16,256,225
Other long-term liabilities	其他長期負債	209,727	-	-	-	209,727
Total	總計	87,135,373	-	340,151	-	87,475,524

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41. FINANCIAL INSTRUMENTS BY CATEGORY 41. 金融工具(按類別)(續)

(continued)

(a) Group (continued)

(a) 集團(續)

		Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedging	Available-for-sale	Total
		以公允價值計量且	以公允價值計量且	以公允價值計量且	以公允價值計量且	以公允價值計量且
		借款及應收款項	其變動計入損益的資產	用作套期的衍生工具	可供出售金融資產	總計
Assets as per balance sheet		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
資產負債表日的資產		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Balance 31 December 2011	二零一一年十二月三十一日					
Available-for-sale financial assets	可供出售金融資產	-	-	-	240,380	240,380
Derivative financial instruments	衍生工具	-	-	4,365	-	4,365
Trade receivables	應收賬款	2,504,026	-	-	-	2,504,026
Prepayments and other receivables excluding prepayments	預付款及除預付款以外的其他應收款	1,437,444	-	-	-	1,437,444
Restricted bank deposits and short-term bank deposits	限制性銀行存款和短期銀行存款	2,894,287	-	-	-	2,894,287
Cash and cash equivalents	現金及現金等價物	3,860,973	-	-	-	3,860,973
Total	總計	10,696,730	-	4,365	240,380	10,941,475
		Loans and receivables	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
		以公允價值計量且	以公允價值計量且	以公允價值計量且	以攤餘成本計量的	以攤餘成本計量的
		借款及應收款項	其變動計入損益的負債	用作套期的衍生工具	其他金融負債	總計
Liabilities as per balance sheet		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
資產負債表日的負債		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Balance 31 December 2011	二零一一年十二月三十一日					
Borrowings	借款	41,774,593	-	-	-	41,774,593
Obligations under finance leases	融資租賃負債	20,260,822	-	-	-	20,260,822
Derivative financial instruments	衍生工具	-	-	332,984	-	332,984
Trade payables and notes payable	應付賬款及應付票據	2,692,624	-	-	-	2,692,624
Other payables and accrued expenses	其他應付款及預提費用	16,267,287	-	-	-	16,267,287
Other long-term liabilities	其他長期負債	908,406	-	-	-	908,406
Total	總計	81,903,732	-	332,984	-	82,236,716

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41. FINANCIAL INSTRUMENTS BY CATEGORY 41. 金融工具(按類別)(續)

(continued)

(b) Company

(b) 公司

Assets as per balance sheet 資產負債表日的資產		Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedging	Available-for-sale	Total
			以公允價值計量且其變動計入損益的資產	用作套期的衍生工具	可供出售金融資產	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Balance 31 December 2012	二零一二年十二月三十一日					
Available-for-sale financial assets	可供出售金融資產	-	-	-	216,256	216,256
Derivative financial instruments	衍生工具	-	-	18,074	-	18,074
Trade receivables	應收賬款	3,601,021	-	-	-	3,601,021
Prepayments and other receivables excluding prepayments	預付款及除預付款以外的其他應收款	6,494,290	-	-	-	6,494,290
Restricted bank deposits and short-term bank deposits	限制性銀行存款和短期銀行存款	109,543	-	-	-	109,543
Cash and cash equivalents	現金及現金等價物	617,422	-	-	-	617,422
Total	總計	10,822,276	-	18,074	216,256	11,056,606

Liabilities as per balance sheet 資產負債表日的負債		Loans and receivables	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
			以公允價值計量且其變動計入損益的負債	用作套期的衍生工具	以攤餘成本計量的其他金融負債	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Balance 31 December 2012	二零一二年十二月三十一日					
Borrowings	借款	35,423,131	-	-	-	35,423,131
Obligations under finance leases	融資租賃負債	17,476,210	-	-	-	17,476,210
Derivative financial instruments	衍生工具	-	-	340,151	-	340,151
Trade payables and notes payable	應付賬款及應付票據	7,558,342	-	-	-	7,558,342
Other payables and accrued expenses	其他應付款及預提費用	10,942,271	-	-	-	10,942,271
Total	總計	71,399,954	-	340,151	-	71,740,105

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41. FINANCIAL INSTRUMENTS BY CATEGORY 41. 金融工具(按類別)(續)

(continued)

(b) Company (continued)

(b) 公司(續)

		Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedging	Available-for-sale	Total
		借款及應收款項	其變動計入損益的資產	用作套期的衍生工具	可供出售金融資產	總計
Assets as per balance sheet		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
資產負債表日的資產		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Balance 31 December 2011	二零一一年十二月三十一日					
Available-for-sale financial assets	可供出售金融資產	-	-	-	221,557	221,557
Derivative financial instruments	衍生工具	-	-	4,365	-	4,365
Trade receivables	應收賬款	2,462,623	-	-	-	2,462,623
Prepayments and other receivables excluding prepayments	預付款及除預付款以外的其他應收款	3,224,769	-	-	-	3,224,769
Restricted bank deposits and short-term bank deposits	限制性銀行存款和短期銀行存款	360,168	-	-	-	360,168
Cash and cash equivalents	現金及現金等價物	852,012	-	-	-	852,012
Total	總計	6,899,572	-	4,365	221,557	7,125,494

		Loans and receivables	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
		借款及應收款項	其變動計入損益的負債	用作套期的衍生工具	以攤餘成本計量的其他金融負債	總計
Liabilities as per balance sheet		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
資產負債表日的負債		人民幣千元	人民幣千元	人民幣千元	人民幣千元	人民幣千元
Balance 31 December 2011	二零一一年十二月三十一日					
Borrowings	借款	30,015,348	-	-	-	30,015,348
Obligations under finance leases	融資租賃負債	16,134,172	-	-	-	16,134,172
Derivative financial instruments	衍生工具	-	-	332,984	-	332,984
Trade payables and notes payable	應付賬款及應付票據	3,480,109	-	-	-	3,480,109
Other payables and accrued expenses	其他應付款及預提費用	10,661,377	-	-	-	10,661,377
Total	總計	60,291,006	-	332,984	-	60,623,990

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42. SHARE CAPITAL

42. 股本

		Group and Company 集團及公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Registered, issued and fully paid of RMB1.00 each	註冊、已發行及全數繳付每股 人民幣1.00元		
A share listed on the Shanghai Stock Exchange ("A Shares")	在上海證券交易所上市的A股 (「A股」)	7,782,214	7,782,214
- Tradable shares held by CEA Holding with trading moratorium	- 中國東航集團持有的 有限售條件流通股	-	4,831,375
- Tradable shares held by other investors with trading moratorium (Note)	- 其他投資者持有的 有限售條件流通股(註釋)	-	288,889
- Tradable shares without trading moratorium (Note)	- 無限售條件流通股 (註釋)	7,782,214	2,661,950
H shares listed on the Stock Exchange of Hong Kong Limited ("H shares")	在香港證券交易所上市的H股(「H股」)	3,494,325	3,494,325
- Tradable shares held by CES Global Holding (Hong Kong) Limited with trading moratorium (Note)	- 東航國際控股(香港)有限公司 持有的有限售條件流通股 (註釋)	-	1,437,375
- Tradable shares without trading moratorium (Note)	- 無限售條件流通股(註釋)	3,494,325	2,056,950
		11,276,539	11,276,539

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

Note:

During the year ended 31 December 2012, listed A shares of 5,120,264 thousand and listed H shares of 1,437,375 thousand with trading moratorium became listed and tradable.

根據本公司的公司章程第四十九及五十條，每股非流通股、A股以及H股皆為註冊普通股並享有同等權利。

註釋：

於截至二零一二年十二月三十一日止年度，有512,026.4萬股A股股票和143,737.5萬股H股股票限售期到期並上市流通。

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43. RESERVES

43. 儲備

		Group 集團					
		Share Premium (附註40) RMB'000 人民幣千元	Capital reserve (Note (a)) (附註(a)) RMB'000 人民幣千元	Hedging reserve (Note 40) (附註40) RMB'000 人民幣千元	Other reserves 其他儲備 RMB'000 人民幣千元	Accumulated losses 累計虧損 RMB'000 人民幣千元	Total 合計 RMB'000 人民幣千元
At 1 January 2011	二零一一年一月一日結餘	17,747,785	(720,057)	(154,492)	77,019	(12,955,507)	3,994,748
Unrealised loss on cashflow hedges (Note 40)	現金套期的未實現虧損 (附註40)	-	-	(132,446)	-	-	(132,446)
Fair value movements of available for sale investments	可供出售投資的公允價值變動	-	-	-	486	-	486
Fair value movements of available for sale investments held by associates	聯佔聯營公司所持有的可供出售投資的公允價值變動	-	-	-	(2,701)	-	(2,701)
Profit attributable to equity shareholders of the Company	本公司權益持有者應佔利潤	-	-	-	-	4,575,732	4,575,732
Accumulated losses shared by non-controlling interests after capital injection in a subsidiary	附屬公司非控制性權益增資後分擔的超額虧損	426,439	-	-	-	-	426,439
Acquisition of non-controlling interests in subsidiaries	收購附屬公司非控制性權益股權	(12,905)	-	-	-	-	(12,905)
At 31 December 2011	二零一一年十二月三十一日結餘	18,161,319	(720,057)	(286,938)	74,804	(8,379,775)	8,849,353
At 1 January 2012	二零一二年一月一日結餘	18,161,319	(720,057)	(286,938)	74,804	(8,379,775)	8,849,353
Unrealised loss on cashflow hedges (Note 40)	現金套期的未實現虧損 (附註40)	-	-	(9,211)	-	-	(9,211)
Fair value movements of available for sale investments held by associates	聯佔聯營公司所持有的可供出售投資的公允價值變動	-	-	-	2,188	-	2,188
Fair value movements of available for sale investments	可供出售投資的公允價值變動	-	-	-	(351)	-	(351)
Profit attributable to equity shareholders of the Company	本公司權益持有者應佔利潤	-	-	-	-	2,953,645	2,953,645
Acquisition of non-controlling interests in subsidiaries (Note 22(c)&(d))	收購附屬公司非控制性權益股權 (附註22(c)和(d))	(490,151)	-	-	-	-	(490,151)
Others	其他	343,786	-	-	-	-	343,786
At 31 December 2012	二零一二年十二月三十一日結餘	18,014,954	(720,057)	(296,149)	76,641	(5,426,130)	11,649,259

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43. RESERVES (continued)

43. 儲備(續)

		Company 公司				
		Share premium 股本溢價 (附註40) RMB'000 人民幣千元	Capital reserve (Note (a)) 資本儲備 (附註(a)) RMB'000 人民幣千元	Hedging reserve (Note 40) 套期儲備 (附註38) RMB'000 人民幣千元	Accumulated losses 累計虧損 RMB'000 人民幣千元	Total 合計 RMB'000 人民幣千元
At 1 January 2011	二零一一年一月一日結餘	17,747,785	(720,057)	(154,492)	(10,853,755)	6,019,481
Unrealised gain on cashflow hedges (Note 40)	現金套期的未實現收益 (附註40)	-	-	(132,446)	-	(132,446)
Transaction with non-controlling interest	非控制性權益交易	197,335	-	-	-	197,335
Profit for the year	年度利潤	-	-	-	4,522,687	4,522,687
At 31 December 2011	二零一一年十二月三十一日結餘	17,945,120	(720,057)	(286,938)	(6,331,068)	10,607,057
At 1 January 2012	二零一二年一月一日結餘	17,945,120	(720,057)	(286,938)	(6,331,068)	10,607,057
Unrealised gain on cashflow hedges (Note 40)	現金套期的未實現收益 (附註40)	-	-	(9,211)	-	(9,211)
Profit for the year	年度利潤	-	-	-	2,516,007	2,516,007
Others	其他	343,786	-	-	-	343,786
At 31 December 2012	二零一二年十二月三十一日結餘	18,288,906	(720,057)	(296,149)	(3,815,061)	13,457,639

Notes:

(a) Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected and the nominal amount of the Company's share capital issued in respect of a Group restructuring carried out in June 1996 for the purpose of the Company's listing.

(b) Statutory and Discretionary Reserves

Pursuant to the PRC regulations and the Companies' Articles of Association, each of the Group companies is required to transfer 10% of its profit for the year, after offsetting the accumulated losses, as determined under the PRC Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of the Group company's registered capital. The statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Each of the Group companies is permitted to transfer 5% of its profit for the year as determined under the PRC Accounting Regulations, to a discretionary common reserve fund. The transfer to this reserve is subject to approval at shareholders' meetings or board meetings.

No profit appropriation by the Company to the statutory and discretionary reserve fund was made for the year ended 31 December 2012 (2011: Nil), as the Company was in accumulated loss position as at 31 December 2012.

註釋：

(a) 資本儲備

本集團於一九九六年六月基於上市目的而重組時的發行的股本賬面值與淨資產公允價值的差異為資本儲備。

(b) 法定及任意公積金

根據中國有關規定及本公司的公司章程，本公司須將按中國企業會計準則所計算的年度內利潤抵消累積虧損後的10%撥入法定公積金，直至該公積金結餘超過註冊資本的50%。法定公積金可用於彌補以前年度虧損，亦可按現有持股比例發行新股予股東或增加股東現時所持股份的面值，但轉撥後的結餘不可少於註冊股本的25%。

本集團內公司可按中國企業會計準則所計算的年度內利潤的5%撥入任意公積金。該項轉撥須經股東大會或董事會決議通過。

本公司於截至二零一二年十二月三十一日止年度無須進行溢利轉撥法定及任意公積金(二零一一年：無)，因為本公司於二零一二年十二月三十一日處於累積虧損。

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44. ASSETS HELD FOR SALE

In December 2011, the Group entered into an agreement with a third party to dispose certain aircraft and related engines in the forthcoming 12 months in consideration of high maintenance costs of these aircraft. The aircraft and engines with an aggregated carrying value of RMB482 million (after the impairment loss charge) has been classified as assets held for sale at 31 December 2011. An impairment loss charge of approximately RMB612 million was made against these aircraft and engines by reference to the contracted selling price (Note 10) for the year ended 31 December 2011.

The assets held for sale as at 31 December 2011 were disposed in 2012 and the selling price approximates its carrying value.

44. 持有待售資產

於二零一一年十二月，本集團與第三方公司簽訂協議，在未來12個月內出售維護成本較高的若干飛機和發動機。於二零一一年十二月三十一日，計提減值準備後賬面淨值為人民幣4.82億元的上述飛機及發動機分類至持有待售資產。根據協議規定售價，本集團對上述飛機及發動機計提減值準備人民幣6.12億元(附註10)。

於二零一一年十二月三十一日的持有待售資產已於二零一二年處置，處置價格與其賬面價值相近。

45. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

45. 合併現金流量表附註

(a) Cash generated from operations

(a) 經營產生的現金流量

		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Profit before income tax	稅前利潤	3,012,404	4,840,701
Adjustments for:	調整項目：		
Depreciation of property, plant and equipment and intangible assets	物業、機器及設備及無形資產折舊	7,509,252	6,911,989
Gain on disposals of property, plant and equipment	物業、機器及設備的處置收益	(101,196)	(35,851)
Gain on disposals of assets-held-for-sale	出售持有待售資產的收益	-	(2,585)
Gain on disposals of investment in subsidiaries	處置附屬公司的損失	-	(230)
Share of results of associates	攤佔聯營公司業績	(103,209)	(75,435)
Share of results of jointly controlled entities	攤佔合營公司業績	(29,960)	(31,437)
Amortisation of lease prepayments	預付租賃款攤銷	47,658	41,777
Net foreign exchange gains	淨匯兌收益	(147,836)	(1,872,369)
Gain arising from fair value movements of derivative financial instruments	金融衍生工具的公允值變動收益	(15,755)	(49,183)
Consumption of flight equipment spare parts	飛機設備零件之消耗	747,268	739,663
Impairment (reversal)/provision for trade and other receivables	應收賬款及其他應收款減值撥備/(沖回)	(6,872)	161,048
Provision for post-retirement benefits	退休後福利準備	581,775	478,502
Provision for return condition checks for aircraft under operating leases	經營性租賃飛機退租檢修準備	792,770	695,415
Impairment (reversal)/charges	資產減值(轉回)/損失	(13,467)	638,316
Interest income	利息收入	(200,765)	(151,633)
Interest expense	利息費用	1,697,474	1,462,727
Operating profit before working capital changes	營運資本變動前年度利潤	13,769,541	13,751,415

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45. NOTE TO CONSOLIDATED CASH FLOW STATEMENT (continued) 45. 合併現金流量表附註(續)

(a) Cash generated from operations (continued)

(a) 經營產生的現金流量(續)

		2012	2011
		二零一二年	二零一一年
		RMB'000	RMB'000
		人民幣千元	人民幣千元
Changes in working capital	營運資本變動		
Flight equipment spare parts	飛機設備零件	(1,176,365)	(1,023,437)
Trade receivables	應收賬款	(427,908)	104,977
Prepayments and other receivables	預付款及其他應收款	(99,757)	1,613,610
Restricted bank deposits and short-term bank deposits	限制性銀行存款和短期銀行存款	1,168,036	(945,157)
Sales in advance of carriage	預售票款	(103,222)	619,794
Trade payables and notes payables	應付賬款及應付票據	387,615	(1,601,517)
Other payables and accrued expenses	其他應付款及預提費用	179,263	1,680,679
Other long-term liabilities	其他長期負債	(383,759)	86,728
Provision for return condition checks for aircraft under operating leases	經營租賃飛機退租檢修準備	(293,134)	(316,686)
Staff housing allowances	職工住房補貼	40,361	(144,272)
Post-retirement benefit obligations	退休後福利準備	(179,873)	(152,358)
Operating lease deposits	經營性租賃押金	(57,963)	107,643
		(946,706)	30,004
Cash generated from operations	經營產生的現金流量	12,822,835	13,781,419

(b) Non-cash transactions

(b) 非現金交易

		2012	2011
		二零一二年	二零一一年
		RMB'000	RMB'000
		人民幣千元	人民幣千元
Financing activities not affecting cash:	非現金融資活動：		
Finance lease obligations incurred for acquisition of aircraft	以融資租賃方式購買飛機	5,712,958	4,181,145
		5,712,958	4,181,145

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46. COMMITMENTS

46. 承諾

(a) Capital commitments

(a) 資本支出承諾

The Group and the Company had the following capital commitments:

本集團及本公司的資本支出承諾如下：

		Group		Company	
		集團	公司	集團	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Authorised and contracted for:	已授權及訂約的：				
– Aircraft, engines and flight equipment (Note)	– 飛機、發動機及飛行設備(註)	172,092,301	108,297,645	167,275,050	103,173,999
– Other property, plant and equipment	– 其他物業、機器及設備	1,125,000	568,565	1,125,000	495,000
– Investment	– 投資	–	–	525,000	–
		173,217,301	108,866,210	168,925,050	103,668,999
Authorised but not contracted for:	已授權但未訂約的：				
– Other property, plant and equipment	– 其他物業、機器及設備	3,132,616	3,193,495	1,749,353	2,306,832
– Investment	– 投資	124,800	–	649,800	1,125,000
		3,257,416	3,193,495	2,399,153	3,431,832
		176,474,717	112,059,705	171,324,203	107,100,831

Note:

註：

Contracted expenditures for the above aircraft, engines and flight equipment, including deposits prior to delivery, subject to future inflation increases built into the contracts were expected to be paid as follows:

以上飛機、發動機及飛行設備包括付運前定金的承諾預期支出，但金額可能因合約中所訂的通脹調整而變動。有關金額列示如下：

		Group		Company	
		集團	公司	集團	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Within one year	一年內	26,320,538	17,934,594	24,137,187	17,640,003
In the second year	第二年	44,435,072	22,248,728	42,541,238	20,060,026
In the third year	第三年	51,730,954	29,884,980	50,990,886	27,986,506
In the fourth year	第四年	28,830,539	31,362,018	28,830,539	30,620,138
Over four years	超過四年	20,775,198	6,867,325	20,775,200	6,867,326
		172,092,301	108,297,645	167,275,050	103,173,999

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46. COMMITMENTS (continued)

(b) Operating lease commitments

As at the balance sheet date, the Group and the Company had commitments under operating leases to pay future minimum lease rentals as follows:

46. 承諾(續)

(b) 經營性租賃承諾

於資產負債表日，本集團及本公司對經營性租賃有如下最低付款承諾：

		Group		Company	
		集團	集團	公司	公司
		2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年	二零一一年
		RMB'000	RMB'000	RMB'000	RMB'000
		人民幣千元	人民幣千元	人民幣千元	人民幣千元
Aircraft, engines and flight equipment	飛機、發動機及飛行設備				
Within one year	一年內	3,833,550	3,750,437	1,311,104	1,680,735
In the second year	第二年	3,504,777	3,545,992	1,171,718	1,529,785
In the third to fifth year inclusive	第三年至第五年 (包括首尾兩年)	7,900,135	8,256,751	2,911,533	3,409,279
After the fifth year	五年以後	6,438,693	5,368,641	1,464,294	1,541,119
		21,677,155	20,921,821	6,858,649	8,160,918
Land and buildings	土地及樓宇				
Within one year	一年內	240,084	241,693	92,902	31,447
In the second year	第二年	176,726	212,170	51,588	28,314
In the third to fifth year inclusive	第三年至第五年 (包括首尾兩年)	413,229	335,454	102,227	48,201
After the fifth year	五年以後	2,072,525	2,767,760	12,448	53,502
		2,902,564	3,557,077	259,165	161,464
		24,579,719	24,478,898	7,117,814	8,322,382

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47. RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which directly owns 42.84% of the Company's shares as at 31 December 2012 (2011: 42.84%). In addition, through CES Global Holding (Hong Kong) Limited, a wholly owned subsidiary of CEA Holding, CEA Holding owns 17.09% of the Company's shares as at 31 December 2012 (2011: 17.09%).

(a) Nature of related parties that do not control or controlled by the Group:

Name of related party 有關聯人士名稱	Relationship with the Group 與本集團關係
Eastern Finance 東航財務	Controlled by the same parent company 受同一母公司控制
Kunming Dongmei Aviation Travel Co., Ltd. ("Kunming Dongmei") 昆明東美航空旅遊有限公司(「昆明東美」)	Controlled by the same parent company 受同一母公司控制
Dongmei Travel 東美旅遊	Associate of the Company 本公司之聯營公司
Xian Dongmei Aviation Travel Co., Ltd. ("Xian Dongmei") 西安東美航空旅遊有限公司(「西安東美」)	Controlled by the same parent company 受同一母公司控制
Eastern Import & Export 東航進出口	Associate of the Company 本公司之聯營公司
Wheels & Brakes 機輪剎車	Joint controlled entity of the Company 本公司之合營公司
Technologies Aerospace 科技宇航	Joint controlled entity of the Company 本公司之合營公司
Shanghai P&W 上海普惠	Associate of the Company 本公司之聯營公司
Shanghai Eastern Air Catering Co., Ltd. ("Shanghai Catering") 上海東方航空食品有限公司(「上海航食」)	Controlled by the same parent company 受同一母公司控制
Eastern Advertising 東航傳媒	Associate of the Company 本公司之聯營公司
CEA Development Co. Ltd. ("CEA Development") 上海東方航空實業公司(「東航實業」)	Controlled by the same parent company 受同一母公司控制
Shanghai Eastern Aviation Equipment Manufacturing Corporation ("Eastern Aviation") 上海東方航空設備製造有限公司(「東航設備製造」)	Controlled by the same parent company 受同一母公司控制
Shanghai Hute Aviation Tech. Co. Ltd. ("Shanghai Hute") 上海滬特航空技術有限公司(「上海滬特」)	Controlled by the same parent company 受同一母公司控制
Shanghai Eastern International Aviation Travel Co., Ltd. ("Eastern Aviation Travel") 上海東方航空國際旅遊運輸有限公司(「東航國際旅遊運輸」)	Controlled by the same parent company 受同一母公司控制
Eastern China Kaiya System Integration ("China Kaiya") 上海民航華東凱亞系統集成有限公司(「華東凱亞」)	Controlled by the same parent company 受同一母公司控制
CEA Northwest Co., Ltd. ("CEA Northwest") 中國東航集團西北公司(「東航集團西北分公司」)	Controlled by the same parent company 受同一母公司控制
Shanghai Aviation Import & Export Co., Ltd. ("Shanghai Import & Export") 上海航空進出口有限公司(「上航進出口」)	Associate of the Company 本公司之聯營公司
Shanghai Eastern Airlines Investment Co., Ltd. ("Eastern investment") 上海東方航空投資有限公司(「東航投資」)	Associate of the Company 本公司之聯營公司
Eastern Airlines Travel Investment (Group) Co., Ltd. ("Eastern Travel") 東航旅遊投資(集團)有限公司(「東航旅遊」)	Associate of the Company 本公司之聯營公司

47. 有關連人士交易

本集團由中國東航集團控制。於二零一二年十二月三十一日，中國東航集團直接持有本公司42.84%之股權(二零一一年：42.84%)。此外，於二零一二年十二月三十一日，中國東航集團通過其全資附屬公司東航國際控股(香港)有限公司擁有本公司17.09%的股權(二零一一年：17.09%)。

(a) 控制或受本集團控制之外的其他與本集團有關聯人士：

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47. RELATED PARTY TRANSACTIONS (continued) 47. 有關連人士交易(續)

(b) Related party transaction

(b) 有關連人士交易

Nature of transaction 交易性質	Related party 有關連人士	Income/(expense or payments) 收入/(費用或支付金額)	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
With CEA Holding or companies directly or indirectly held by CEA Holding: 與中國東航集團或由中國東航集團直接或間接控制的公司：			
Interest income on deposits at an average rate of 0.39% per annum (2011: 0.50% per annum) 存款利息收入，年平均利率0.39% (二零一一年：年平均利率0.50%)	Eastern Finance 東航財務	45,996	46,242
Interest expense on loans at average rate of 5.49% per annum (2011: 5.39% per annum) 借款利息支出，年利率5.49% (二零一一年：年利率5.39%)	Eastern Finance 東航財務 CEA Holding 中國東航集團	(87,457)	(51,117)
Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold** 機票銷售佣金，銷售票款金額的3%至9%	Dongmei Travel 東美旅遊	(12,438)	(11,218)
	Kunming Dongmei 昆明東美	(4,858)	(8,285)
	Xian Dongmei 西安東美	(2,540)	(858)
Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment and repairs for aircraft and engines** 購買飛機、飛行設備、飛行設備零件及其他固定資產及飛機維修所支付的手續費，購買價款的0.1%至2%	Eastern Import & Export 東航進出口	(78,756)	(57,682)
Repairs and maintenance expense for aircraft and engines** 飛機及發動機的維修及保養費用	Wheels & Brakes 機輪剎車	(58,483)	(52,098)
	Technologies Aerospace 科技宇航	(194,528)	(169,698)
	Shanghai P&W 上海普惠	(2,009,050)	(1,170,567)
Supply of food and beverages* 餐食及機艙供應品的費用	Shanghai Catering and its subsidiaries 上海航食及其附屬公司	(783,384)	(737,827)
Advertising expense** 廣告費用	Eastern Advertising 東航傳媒	(38,846)	(18,202)
Media royalty fee** 媒體特許權使用費	Eastern Advertising 東航傳媒	36,030	12,900

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47. RELATED PARTY TRANSACTIONS (continued) 47. 有關連人士交易(續)

(b) Related party transaction (continued)

(b) 有關連人士交易(續)

Nature of transaction 交易性質	Related party 有關連人士	Income/(expense or payments) 收入/(費用或支付金額)	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Automobile maintenance service, aircraft Maintenance, providing transportation Automobile and other products** 汽車修理服務、飛機維修生產服務、供應運輸生產車輛設備以及機上供應品	CEA Development 東航實業	(121,854)	(102,614)
Equipment maintenance fee** 接受設備生產及維修服務	Shanghai Hute 上海滬特	(47,205)	(39,662)
Land and building rental 物業租賃費	CEA Holding 中國東航集團	(66,763)	(55,140)
Acquisition of non-controlling interests in subsidiaries*** 收購附屬公司的非控制性權益***	CEA Holding 中國東航集團	(83,952)	(47,211)
	Shanghai Import & Export 上航進出口	(20,694)	—
Acquisition of non-controlling interests in associates*** 收購聯營公司的非控制性權益***	Eastern Travel 東航旅業	(13,851)	—
Acquisition of cargo business 收購貨運業務	Great Wall Airlines 長城航空	—	(357,261)
Disposal of investment in an associate*** 出售聯營公司***	Eastern Investment 東航投資	93,680	—

* The Group's pricing policies on products purchased from related parties are based on mutually agreed prices between contract parties.

** The Group's pricing policies on services provided by and to related parties are based on the mutually agreed prices between contract parties.

*** The Company's pricing policies on transfer of equity or dispose of investment are based on the valuation prices.

* 本集團採購關聯方的產品的價格是在市場價格基礎上經雙方協商確定。

** 本集團接受關聯方提供的勞務的價格是在市場價格基礎上經雙方協商確定。

*** 本集團關聯方股權轉讓和出售投資的價格是按照評估價格確定。

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47. RELATED PARTY TRANSACTIONS (continued) 47. 有關連人士交易(續)

(c) Balances with related companies

(c) 有關連人士餘額

(i) Amounts due from related companies

(i) 應收有關連公司款項

Nature 性質	Company 公司名稱	Group 集團		Company 公司	
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Trade receivables 應收賬款	Kunming Dongmei 昆明東美	4,213	211	-	-
	Eastern Aviation Travel 東航國際旅遊運輸	-	11,012	-	11,012
	China Cargo 中貨航	-	-	2,181,624	1,215,770
	Others 其他	4,308	2,340	6,305	16,717
		8,521	13,563	2,187,929	1,243,499
Prepayments, and other receivable 預付款及其他應收款	Eastern Import & Export 東航進出口	370,125	218,753	309,119	101,846
	China Kaiya 華東凱亞	19,694	16,189	19,694	16,189
	Shanghai Airlines 上海航空	-	-	2,245,339	688,897
	China Cargo 中貨航	-	-	748,386	553,860
	United Airlines 中聯航	-	-	638,234	1,489
	CEA Yunnan 東航雲南	-	-	462,702	254,872
	CEA Wuhan 東航武漢	-	-	34,518	628,468
	Others 其他	13,025	14,923	119,560	80,604
		402,844	249,865	4,577,552	2,326,225

All the amounts due from related companies are trade in nature, interest free and payable within normal credit terms given to trade customers.

所有應收有關連公司款項，全為貿易性質、不帶息及給予跟貿易客戶一樣的正常還款期。

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47. RELATED PARTY TRANSACTIONS (continued) 47. 有關連人士交易(續)

(c) Balances with related companies (continued)

(c) 有關連人士餘額(續)

(ii) Amounts due to related companies

(ii) 應付有關連公司款項

Nature 性質	Company 公司名稱	Group 集團		Company 公司		
		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元	
Trade payables and notes payable 應付賬款及應付票據	Eastern Import & Export 東航進出口	1,210,603	747,179	852,156	652,287	
	Shanghai P&W 上海普惠	467,885	278,778	422,574	278,778	
	Shanghai Catering 上海航食	134,696	120,260	119,953	14,344	
	Technologies Aerospace 科技宇航	63,136	28,703	60,201	9,955	
	China Cargo 中貨航	-	-	1,736,158	869,546	
	CEA Yunnan 東航雲南	-	-	1,264,452	-	
	Shanghai Airlines 上海航空	-	-	947,158	681,745	
	CEA Jiangsu 東航江蘇	-	-	757,453	251,506	
	United Airlines 中聯航	-	-	724,879	12,096	
	Others 其他	73,324	41,392	289,818	154,833	
		1,949,644	1,216,312	7,174,802	2,925,090	
	Other payables and accrued expenses 其他應付款及預提費用	Eastern Import & Export 東航進出口	96,861	1,244	96,811	-
		CEA Holding 中國東航集團	73,020	87,115	72,997	37,582
		Eastern Air Overseas HK 東航海外(香港)有限公司	-	-	1,557,295	692,924
China Cargo 中貨航		-	-	220,054	187,309	
United Airlines 中聯航		-	-	188,379	361	
Shanghai Airlines 上海航空		-	-	93,955	73,616	
Others 其他		25,003	8,231	182,737	109,362	
		194,884	96,590	2,412,228	1,101,154	

Except for the amounts due to CEA Holding, which are reimbursement in nature, all other amounts due to related companies are trade in nature. All amounts due to related companies are interest free and payable within normal credit terms given by trade creditors.

所有應付有關連公司款項，除了應付中國東航集團款項為代墊款外，全為貿易性質。所有應付有關連公司款項全為不帶息及給予跟貿易客戶一樣的正常還款期。

NOTES TO THE FINANCIAL STATEMENTS

財務報表附註

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

47. RELATED PARTY TRANSACTIONS (continued) 47. 有關連人士交易(續)

(c) Balances with related companies (continued)

(iii) Short-term deposits and borrowings with associates and CEA Holding

		Average interest rate 平均利率		Group 集團		Company 公司	
		2012	2011	2012	2011	2012	2011
		二零一二年	二零一一年	二零一二年 RMB'000 人民幣千元	二零一一年 RMB'000 人民幣千元	二零一二年 RMB'000 人民幣千元	二零一一年 RMB'000 人民幣千元
Short-term deposits (included in restricted bank deposits and short-term bank deposits) "Eastern Finance"	短期存款(包括在限制性銀行存款及短期銀行存款內)「東航財務」	0.39%	0.50%	1,451,526	2,204,510	3,713	232,236
Short-term loans (included in borrowings) "Eastern Finance"	短期借款(包括在借款內)「東航財務」	4.98%	5.02%	675,426	176,425	-	-
Long-term loans (included in borrowings) "Eastern Finance"	長期借款(包括在借款內)「東航財務」	5.64%	5.64%	165,000	135,000	-	-

(c) 有關連人士餘額(續)

(iii) 與聯營公司及中國東航集團短期存款以及短期貸款

(d) Guarantees by holding company

As at 31 December 2012, bank loans of the Group with an aggregate amount of RMB95 million (2011: RMB228 million) were guaranteed by CEA Holding (Note 34).

(d) 控股公司作出的擔保

於二零一二年十二月三十一日，本集團由中國東航集團擔保的銀行借款分別為人民幣0.95億元(二零一一年：人民幣2.28億元)(附註34)。

NOTES TO THE FINANCIAL STATEMENTS

財務報表附註

(Prepared in accordance with International Financial Reporting Standards) (按國際財務報告準則編製)
For the year ended 31 December 2012 截至二零一二年十二月三十一日止年度

47. RELATED PARTY TRANSACTIONS (continued) 47. 有關連人士交易(續)

(e) Key management compensation

The compensation paid or payable to key management for employee services mainly comprised of salaries and other short-term employee benefits and was analysed as below:

		2012 二零一二年 RMB'000 人民幣千元	2011 二零一一年 RMB'000 人民幣千元
Directors and supervisors (Note 9(a))	董事及監事(附註9(a))	3,393	2,885
Senior management	高級行政人員	2,742	2,740
		6,135	5,625

(e) 高級行政人員酬金

已付或應付給高級行政人員的酬金主要由工資和其他短期職工福利組成，分析如下：

48. ULTIMATE HOLDING COMPANY

The Directors regard CEA Holding, a state-owned enterprise established in the PRC, as being the ultimate holding company.

48. 最終控股公司

本公司的董事以中國東航集團，一家於中國成立的國有企業為本公司最終控股公司。

INTERIM FINANCIAL INFORMATION

Prepared in accordance with International Financial Reporting Standards

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Note	(Unaudited)	
		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
			Restated*
Revenues	6	41,624,394	40,213,354
Other operating income		651,749	864,750
Operating expenses			
Aircraft fuel		(14,978,528)	(14,670,924)
Gain on fair value movements of derivative financial instruments		11,646	9,847
Take-off and landing charges		(4,579,511)	(4,308,392)
Depreciation and amortization		(3,963,814)	(3,632,783)
Wages, salaries and benefits		(4,648,607)	(4,383,829)
Aircraft maintenance		(2,300,966)	(2,173,587)
Food and beverages		(1,088,806)	(953,799)
Aircraft operating lease rentals		(2,148,731)	(2,067,134)
Other operating lease rentals		(288,502)	(294,895)
Selling and marketing expenses		(1,872,656)	(1,720,236)
Civil aviation development fund		(751,120)	(675,503)
Ground services and other charges		(339,619)	(292,507)
Indirect operating costs		(3,401,305)	(2,854,477)
Other expenses		(1,790,802)	(1,210,064)
Total operating expenses		(42,141,321)	(39,228,283)
Operating profit		134,822	1,849,821
Share of results of associates		(10,273)	40,377
Share of results of joint ventures		8,794	17,895
Total share of results of associates and joint ventures		(1,479)	58,272
Interest income		78,201	96,927
Finance costs	8	(773,213)	(846,601)
Exchange gains/(losses), net	9	1,174,286	(227,985)
Profit before income tax		612,617	930,434
Income tax	10	(79,852)	(176,649)
Profit for the period		532,765	753,785

Prepared in accordance with International Financial Reporting Standards

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Note	(Unaudited)	
		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
			Restated*
Profit attributable to:			
Equity shareholders of the Company		621,859	865,629
Non-controlling interests		(89,094)	(111,844)
		532,765	753,785
Earnings per share attributable to the equity shareholders of the Company during the period			
– Basic and diluted (RMB)	11	0.05	0.08
Profit for the period		532,765	753,785
Other comprehensive income/(loss) for the period			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Cash flow hedges, net of tax		216,476	2,886
Fair value movements of available-for-sale investments held by associates		(3,996)	4,108
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		212,480	6,994
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial (losses)/gains on the defined benefit plan		(54,848)	22,963
Net other comprehensive income not being reclassified to profit or loss in subsequent periods		(54,848)	22,963
Other comprehensive income, net of tax		157,632	29,957
Total comprehensive income for the period		690,397	783,742
Total comprehensive income attributable to:			
Equity shareholders of the Company		785,774	895,208
Non-controlling interests		(95,377)	(111,466)
		690,397	783,742

* Certain amounts shown here do not correspond to the condensed consolidated statement of comprehensive income for the period ended 30 June 2012 and reflect adjustments made as detailed in Note 21.

Prepared in accordance with International Financial Reporting Standards

CONDENSED CONSOLIDATED FINANCIAL POSITION

As at 30 June 2013

	<i>Note</i>	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000 Restated*
Non-current assets			
Intangible assets	14	11,455,500	11,449,099
Property, plant and equipment	15	86,483,043	82,518,761
Lease prepayments		1,757,405	1,781,846
Advanced payments on acquisition of aircraft	16	14,169,892	11,894,891
Investments in associates		1,003,945	833,472
Investments in joint ventures		426,953	418,159
Available-for-sale financial assets		281,775	234,690
Other long-term assets		2,096,621	1,958,256
Deferred tax assets		137,263	124,659
Derivative assets		56,648	–
		117,869,045	111,213,833
Current assets			
Flight equipment spare parts		2,177,639	2,087,978
Trade receivables	17	3,990,906	2,962,181
Prepayments, deposits and other receivables		3,665,075	3,368,648
Derivative assets		744	18,074
Restricted bank deposits and short-term bank deposits		2,383,054	1,726,251
Cash and cash equivalents		3,672,417	2,511,696
		15,889,835	12,674,828
Current liabilities			
Sales in advance of carriage		2,996,887	3,094,427
Trade payables and notes payable	18	3,419,681	3,075,325
Other payables and accrued expenses		16,726,022	16,256,225
Current portion of obligations under finance leases	19	2,589,090	2,605,269
Current portion of borrowings	20	22,684,311	22,639,955
Income tax payable		42,179	181,788
Current portion of provision for return condition checks for aircraft under operating leases		968,116	734,205
Derivative liabilities		25,738	35,813
		49,452,024	48,623,007
Net current liabilities		(33,562,189)	(35,948,179)
Total assets less current liabilities		84,306,856	75,265,654

INTERIM REPORT 2013

Prepared in accordance with International Financial Reporting Standards

CONDENSED CONSOLIDATED FINANCIAL POSITION

As at 30 June 2013

	<i>Note</i>	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000 Restated*
NON-CURRENT LIABILITIES			
Obligations under finance leases	19	17,547,790	19,252,709
Borrowings	20	29,597,028	23,096,163
Provision for return condition checks for aircraft under operating leases		2,933,089	3,064,557
Other long-term liabilities		1,709,787	1,635,537
Post-retirement benefit obligations	21	6,347,146	6,147,852
Deferred tax liabilities		29,361	29,326
Derivative liabilities		127,682	304,338
		58,291,883	53,530,482
Net asset		26,014,973	21,735,172
Equity			
Capital and reserves attributable to the equity shareholders of the Company			
– Share capital	22	12,674,269	11,276,539
– Reserves		11,919,192	8,958,757
		24,593,461	20,235,296
Non-controlling interests		1,421,512	1,499,876
Total equity		26,014,973	21,735,172

* Certain amounts shown here do not correspond to the condensed consolidated financial position as at 31 December 2012 and reflect adjustments made as detailed in Note 21.

Prepared in accordance with International Financial Reporting Standards

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2013*

	(Unaudited)	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Net cash inflow from operating activities	3,779,614	5,847,254
Net cash outflow from investing activities	(10,774,716)	(3,862,439)
Net cash inflow/(outflow) from financing activities	8,163,018	(487,930)
Net increase in cash and cash equivalents	1,167,916	1,496,885
Cash and cash equivalents at 1 January	2,511,696	3,860,973
Exchange adjustments	(7,195)	3,371
Cash and cash equivalents at 30 June	3,672,417	5,361,229

Prepared in accordance with International Financial Reporting Standards

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Accumulated losses	Subtotal	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2013						
(Unaudited)						
Balance at 1 January 2013						
As previously reported	11,276,539	17,075,389	(5,426,130)	22,925,798	1,627,599	24,553,397
Prior year adjustments	-	(3,144,523)	454,021	(2,690,502)	(127,723)	(2,818,225)
As restated	11,276,539	13,930,866	(4,972,109)	20,235,296	1,499,876	21,735,172
Profit for the period	-	-	621,859	621,859	(89,094)	532,765
Other comprehensive income for the period	-	163,915	-	163,915	(6,283)	157,632
Total comprehensive income for the period	-	163,915	621,859	785,774	(95,377)	690,397
Capital contribution by non-controlling interests in subsidiaries	-	-	-	-	50,000	50,000
Dividends paid to non-controlling interests in subsidiaries	-	-	-	-	(18,720)	(18,720)
Acquisition of non-controlling interests in subsidiaries	-	-	-	-	(14,267)	(14,267)
Issue of shares	1,397,730	2,174,661	-	3,572,391	-	3,572,391
Balance at 30 June 2013	12,674,269	16,269,442	(4,350,250)	24,593,461	1,421,512	26,014,973

CHINA EASTERN AIRLINES CORPORATION LIMITED

Prepared in accordance with International Financial Reporting Standards

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000		
Six months ended 30 June 2012						
(Unaudited)						
Balance at 1 January 2012						
As previously reported	11,276,539	17,229,128	(8,379,775)	20,125,892	1,679,215	21,805,107
Prior year adjustments	–	(3,298,789)	338,191	(2,960,598)	(118,518)	(3,079,116)
As restated	11,276,539	13,930,339	(8,041,584)	17,165,294	1,560,697	18,725,991
Profit for the period	–	–	865,629	865,629	(111,844)	753,785
Other comprehensive income for the period	–	29,579	–	29,579	378	29,957
Total comprehensive income for the period ended 30 June 2012	–	29,579	865,629	895,208	(111,466)	783,742
Recognise fair value of land use right as deemed cost	–	343,786	–	343,786	–	343,786
Dividends paid to non-controlling interests in subsidiaries	–	–	–	–	(23,042)	(23,042)
Disposal of a subsidiary	–	–	–	–	(1,453)	(1,453)
Balance at 30 June 2012	11,276,539	14,303,704	(7,175,955)	18,404,288	1,424,736	19,829,024

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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

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

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

This condensed consolidated interim financial information was approved for issue by the Company’s Board on 30 August 2013.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standard Board (“**IASB**”).

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

As at 30 June 2013, the Group’s accumulated losses were approximately RMB4.35 billion; its current liabilities exceeded its current assets by approximately RMB33.56 billion.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2. BASIS OF PREPARATION *(cont'd)*

Against this background, the Directors have taken active steps to seek additional sources of finance and improve the Group's liquidity position. As at 30 June 2013, the Group had total unutilised credit facilities of approximately RMB20.48 billion from certain banks.

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

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 19 (Revised 2011) Employee Benefits, IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements. As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 12 Disclosure of Interest in Other Entities would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**3. ACCOUNTING POLICIES** *(cont'd)*

The nature and the impact of each new standard/amendment is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g. net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans). The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 32 Tax Effects of Distributions to Holders of Equity Instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**3. ACCOUNTING POLICIES** *(cont'd)***IAS 34 Interim Financial Reporting and Segment Information for Total Assets and Liabilities (Amendment)**

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

The effect of the adoption of IAS 19R is explained in Note 21.

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**3. ACCOUNTING POLICIES** *(cont'd)***IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements**

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the Group's or the Company's financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such disclosures.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. ACCOUNTING POLICIES *(cont'd)*

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS; therefore, this amendment is not relevant to the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. ESTIMATES

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. ESTIMATES *(cont'd)***Changes in accounting estimate**

The Group monitors the sales advance of carriage on a periodic basis and recognises the traffic revenue once the related transportation responsibility is eliminated. Based on the enhanced monitoring on the international air traffic liabilities, it appears there is remote possibility for the Group to render the international transportation services for the unused tickets for more than two years. Consequently, the Group decided to change the point of time to recognise the traffic revenue for unused tickets relating to international transportation services. Before the change, the Group recognises the traffic revenue for unused tickets relating to international transportation services for more than three years. After the change, the Group recognises the traffic revenue for unused tickets relating to international transportation services for more than two years. The change of accounting estimate is prospectively applied in April 2013.

The main effects of changes in accounting estimate on the condensed consolidated interim financial information as at 30 June 2013 are as follows:

As at 30 June 2013

	Before changes Ending balance/ Transaction RMB'000	Changes in accounting estimate Recognition of unused tickets RMB'000	After changes Ending balance/ Transaction RMB'000
Sales in advance of carriage Revenue	3,056,757	(59,870)	2,996,887
– traffic revenues	38,136,558	59,870	38,196,428

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and fuel price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2012.

There have been no changes in the risk management department since year end or in any risk management policies.

(b) Liquidity risk

The Group's primary cash requirements have been for day-to-day operations, additions of and upgrades to aircraft, engines and flight equipment and repayments of related borrowings. The Group finances its working capital requirements through a combination of funds generated from operations and bank loans (both short-term and long-term). The Group generally finances the acquisition of aircraft through long-term finance leases or bank loans.

The Group operates with a working capital deficit. As at 30 June 2013, the Group's net current liabilities amounted to RMB33,562 million (2012: RMB35,948 million). For the six months ended 30 June 2013, the Group recorded a net cash inflow from operating activities of RMB3,780 million (2012: inflow of RMB5,847 million), a net cash outflow from investing activities and financing activities of RMB2,612 million (2012: outflow of RMB4,350 million), and an increase in cash and cash equivalents of RMB1,168 million (2012: increase of RMB1,497 million).

The Directors of the Company believe that cash from operations and bank loans will be sufficient to meet the Group's operating cash flow requirements. Due to the dynamic nature of the underlying businesses, the Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Directors of the Company believe that the Group has obtained sufficient general credit facilities from PRC banks for financing future capital commitments and for working capital purposes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT *(cont'd)***(b) Liquidity risk** *(cont'd)*

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 30 June 2013 (Unaudited)				
Borrowings	24,025,885	7,358,744	13,350,079	12,945,603
Derivative financial instruments	25,738	-	120,617	7,065
Obligations under finance leases	2,944,580	3,046,317	8,239,488	7,700,153
Trade and other payables	19,679,993	73,328	339,680	60,390
Provision for return condition checks for aircraft under operating lease	968,116	1,126,427	1,270,482	536,180
Other long term liabilities	-	27,350	75,922	75,538
Total	47,644,312	11,632,166	23,396,268	21,324,929
At 31 December 2012 (Audited)				
Borrowings	23,690,528	7,780,344	8,846,834	8,736,557
Derivative financial instruments	504	-	122,751	216,895
Obligations under finance leases	3,004,452	3,059,744	8,685,669	9,027,940
Trade and other payables	18,871,661	71,236	329,988	58,665
Provision for return condition checks for aircraft under operating lease	734,205	818,199	1,381,893	864,465
Other long term liabilities	26,500	26,988	76,610	79,629
Total	46,327,850	11,756,511	19,443,745	18,984,151

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT *(cont'd)***(c) Fair value measurement**

Except for the following, the carrying amounts of the financial instruments approximate to their fair values.

	30 June 2013	
	Carrying amounts RMB'000 (Unaudited)	Fair values RMB'000 (Unaudited)
Financial liabilities		
Borrowings		
– long-term bank borrowings (including current portion)	28,450,941	29,966,927
Obligations under finance leases (including current portion)	20,136,880	21,126,749
Total	48,587,821	51,093,676

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT *(cont'd)***(d) Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 30 June 2013 (Unaudited)				
Available-for-sale investments:				
– Equity investments	1,955	–	279,820	281,775
Derivative financial instruments				
– Interest rate swaps	–	55,907	–	55,907
– Forward foreign exchange contracts	–	1,485	–	1,485
Total	1,955	57,392	279,820	339,167

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT *(cont'd)***(d) Fair value hierarchy** *(cont'd)**Assets measured at fair value (cont'd)*

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2012 (Audited)				
Available-for-sale investments:				
– Equity investments	1,955	–	232,735	234,690
Derivative financial instruments				
– Forward foreign exchange contracts	–	18,074	–	18,074
Total	1,955	18,074	232,735	252,764

The movements in fair value measurements in Level 3 during the period are as follows:

	RMB'000
Available-for-sale investments:	
At 1 January 2013	232,735
Purchases	47,085
At 30 June 2013	279,820

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2012: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT *(cont'd)***(d) Fair value hierarchy** *(cont'd)**Liabilities measured at fair value*

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 30 June 2013 (Unaudited)				
Derivative financial investments				
– Interest rate swaps	–	153,420	–	153,420
Total	–	153,420	–	153,420

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2012 (Audited)				
Derivative financial investments				
– Interest rate swaps	–	295,005	–	295,005
– Forward foreign exchange contracts	–	45,146	–	45,146
Total	–	340,151	–	340,151

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6. REVENUES

The Group is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services.

	(Unaudited)	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Traffic revenues		
– Passenger	34,665,298	33,565,785
– Cargo and mail	3,531,130	4,003,592
Tour operations income	1,475,906	984,813
Ground service income	979,109	906,058
Cargo handling income	116,779	89,041
Commission income	34,780	42,099
Others	821,392	621,966
	41,624,394	40,213,354

7. SEGMENT INFORMATION

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

The Group has one reportable operating segment, reported as "airline transportation operations", which comprises the provision of passenger, cargo, mail delivery and ground service.

Other services including tour operations, aviation training, air catering and other miscellaneous services are not included within the airline transportation operations segment, as their internal reports are separately provided to the CODM. The results of these operations are included in the "other segments" column.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. SEGMENT INFORMATION *(cont'd)***(a)** *(cont'd)*

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the "**PRC Accounting Standards**"), which differ from IFRS in certain aspects. The amount of each material reconciling items from the Group's reportable segment revenue, profit, assets and liabilities arising from different accounting policies are set out in Note 7(c) below.

The segment results for the six months ended 30 June 2013 are as follows:

	(Unaudited)				
	Airline transportation operations	Other segments	Elimination	Unallocated*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment revenue from external customers	39,860,318	1,618,936	-	-	41,479,254
Inter-segment sales	-	106,194	(106,194)	-	-
Reportable segment revenue	39,860,318	1,725,130	(106,194)	-	41,479,254
Reportable segment profit before income tax	600,889	137,781	-	11,051	749,721
Other segment information					
Depreciation and amortization	4,200,374	63,642	-	-	4,264,016
Impairment losses	19,282	-	-	-	19,282
Capital expenditure	10,599,504	102,767	-	-	10,702,271

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. SEGMENT INFORMATION *(cont'd)***(a)** *(cont'd)*

The segment results for the six months ended 30 June 2012 are as follows:

	(Unaudited)				Total RMB'000
	Airline transportation operations RMB'000	Other segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	
	Reportable segment revenue from external customers	39,321,780	1,081,000	-	
Inter-segment sales	-	113,518	(113,518)	-	-
Reportable segment revenue	39,321,780	1,194,518	(113,518)	-	40,402,780
Reportable segment profit before income tax	938,839	63,176	-	65,546	1,067,561
Other segment information					
Depreciation and amortization	3,792,726	53,769	-	-	3,846,495
Impairment losses	(21,219)	200	-	-	(21,019)
Capital expenditure	8,031,713	86,875	-	-	8,118,588

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. SEGMENT INFORMATION *(cont'd)***(a)** *(cont'd)*

The segment assets and liabilities as at 30 June 2013 and 31 December 2012 are as follows:

	(Unaudited)				
	Airline transportation operations	Other segments	Elimination	Unallocated*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2013 (Unaudited)					
Reportable segment assets	124,585,860	7,548,051	(3,016,772)	1,712,656	130,829,795
Reportable segment liabilities	97,782,601	6,550,630	(3,016,772)	-	101,316,459
At 31 December 2012 (Audited)					
Reportable segment assets	116,461,666	4,706,382	(1,691,890)	1,486,321	120,962,479
Reportable segment liabilities	94,047,698	3,564,029	(1,691,890)	-	95,919,837

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

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

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

- 1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("**Hong Kong**"), Macau Special Administrative Region ("**Macau**") and **Taiwan**, (collectively known as "**Regional**") is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets excluding Regional is classified as international operations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. SEGMENT INFORMATION *(cont'd)***(b)** *(cont'd)*

- 2) Revenue from ticket handling services, ground services, cargo handling service and other miscellaneous services are classified on the basis of where the services are performed.

	(Unaudited)	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	27,829,110	27,033,403
International	11,721,512	11,579,840
Regional (Hong Kong, Macau and Taiwan)	1,928,632	1,789,537
Total	41,479,254	40,402,780

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Since the Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities by geographic areas and hence segment assets and capital expenditure by geographic areas have not been presented.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. SEGMENT INFORMATION *(cont'd)*

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

		(Unaudited)	
		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
	Note		
Revenue			
Reportable segment revenue		41,479,254	40,402,780
– Reclassification of business tax	<i>(i)</i>	(204,860)	(339,426)
– Reclassification of expired sales in advance of carriage	<i>(i)</i>	350,000	150,000
Consolidated revenue		41,624,394	40,213,354

		(Unaudited)	
		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
	Note		Restated
Profit before income tax			
Reportable segment profit		749,721	1,067,561
– Differences in depreciation of aircraft and engines	<i>(ii)</i>	(3,504)	(3,136)
– Provision for post-retirement benefits	<i>(iii)</i>	(133,600)	(133,991)
Consolidated profit before income tax		612,617	930,434

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. SEGMENT INFORMATION *(cont'd)*(c) *(cont'd)*

		(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
	<i>Note</i>		
Assets			
Reportable segment assets		130,829,795	120,962,479
– Differences in depreciation of aircraft and engines	<i>(ii)</i>	49,397	52,901
– Difference in intangible asset (goodwill) arising from the acquisition of Shanghai Airlines	<i>(iv)</i>	2,760,665	2,760,665
– Others		119,023	112,616
Consolidated total assets		133,758,880	123,888,661
Liabilities			
Reportable segment liabilities		101,316,459	95,919,837
– Provision for post-retirement benefits	<i>(iii)</i>	6,427,448	6,233,652
Consolidated total liabilities		107,743,907	102,153,489

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. SEGMENT INFORMATION *(cont'd)*

(c) *(cont'd)*

Notes:

- (i) The difference represents the different classification of business tax and expired sales in advance of carriage under PRC Accounting Standards and IFRS.
- (ii) The difference is attributable to the differences in the useful lives and residual values of aircraft and engines adopted for depreciation purpose in prior years under PRC Accounting Standards and IFRS. Despite the depreciation policies of these assets have been unified under IFRS and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which results in the differences in the carrying amounts and related depreciation charges under IFRS and PRC Accounting Standards.
- (iii) In accordance with the PRC Accounting Standards, certain employees' post-retirement benefits are recognised upon actually incurred. Under IFRS, such post-retirement benefits under defined benefit schemes are required to be recognised over the employees' service period using projected unit credit method.
- (iv) The determination of the fair values of the acquisition costs and identifiable assets and liabilities of Shanghai Airlines acquired is different under IFRS and the PRC Accounting Standards, which resulted in differences in the intangibles/goodwill recognised arising from the acquisition.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8. FINANCE COSTS

	(Unaudited)	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Interest on bank borrowings	627,359	717,364
Interest relating to obligations under finance leases	173,038	182,393
Interest on bonds	126,620	50,000
Interest relating to notes payable	45,946	35,251
	972,963	985,008
Less: amounts capitalised into advanced payments on acquisition of aircraft <i>(Note)</i>	(193,725)	(138,407)
amounts capitalised into property, plant and equipment <i>(Note)</i>	(6,025)	–
	773,213	846,601

Note:

The average interest rate used for interest capitalisation is 3.60%-5.90% per annum for the six months ended 30 June 2013 (2012: 3.78%).

9. EXCHANGE GAINS/(LOSSES), NET

The exchange gains/(losses) for the six months ended 30 June 2013 and 2012 primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases at period-end exchange rates.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. INCOME TAX

Income tax charged to the condensed consolidated income statement is as follows:

	(Unaudited)	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Provision for PRC income tax	87,072	178,833
Deferred taxation	(7,220)	(2,184)
	79,852	176,649

Prior to 2008, the Company and certain of its subsidiaries (the “**Pudong Subsidiaries**”) located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong District, Shanghai. Under the Corporate Income Tax Law of the People’s Republic of China (the “**New CIT Law**”), which was approved by the National People’s Congress on 16 March 2007 and became effective from 1 January 2008, the Company and the Pudong Subsidiaries are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to 25% over five years from 2008.

For the year ended 30 June 2013, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries was 25% (2012: 25%). Other subsidiaries of the Company, except for those incorporated in Hong Kong, which are subject to Hong Kong corporate income tax rate of 16.5% (2012: 16.5%), are generally subject to the PRC standard corporate tax rate of 25% (2012: 25%) under the New CIT Law.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. INCOME TAX *(cont'd)*

Pursuant to the “Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issues Concerning Relevant Tax Policies for Enhancing the Implementation of Western Region Development Strategy” (Cai Shui [2011] No.58), and other series of tax regulations, the enterprises, located in the western regions and engaged in the industrial activities as listed in the “Catalogue of Encouraged Industries in Western Regions”, will be entitled to a reduced income tax rate of 15% from 2011 to 2020 upon approval from tax authorities. China Eastern Yunnan Airlines Co., Ltd. (“**CEA Yunnan**”), a subsidiary of the Group, obtained approval from tax authorities and enjoys a reduced tax rate of 15% from 1 January 2011.

The Group operates international flights to overseas destinations. There was no material overseas taxation for the six months ended 30 June 2013, as there are avoidance of double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to equity shareholders of the Company of approximately RMB622 million (2012: RMB866 million) and the weighted average number of shares of 11,602,676,000 (2012: 11,276,539,000) in issue during the six months ended 30 June 2013.

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

12. DIVIDEND

The Board has not recommended any interim dividend for the six months ended 30 June 2013 (2012: Nil).

13. PROFIT APPROPRIATION

No appropriation to the statutory reserves has been made during the six months ended 30 June 2013. Such appropriations will be made at year end in accordance with PRC regulations and the Articles of Association of individual group companies.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. INTANGIBLE ASSETS

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Goodwill (Note)	11,269,695	11,269,695
Other intangible assets	185,805	179,404
	11,455,500	11,449,099

Note:

The balance represents goodwill arising from the acquisition of Shanghai Airlines. Goodwill is attributable to strengthening the competitiveness of the Group's airlines operation business, attaining synergy through integration of the resources and providing the evolution of Shanghai international air transportation center.

15. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) Six months ended 30 June 2013		
	Aircraft, engines and flight equipment RMB'000	Others RMB'000	Total RMB'000
Carrying amounts at 1 January 2013	73,005,271	9,513,490	82,518,761
Transfers from advanced payments on acquisition of aircraft (Note 16)	5,231,841	–	5,231,841
Other additions	1,612,525	1,098,997	2,711,522
Depreciation charges	(3,596,708)	(362,106)	(3,958,814)
Disposals	(12,551)	(7,716)	(20,267)
Carrying amounts at 30 June 2013	76,240,378	10,242,665	86,483,043

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

	(Unaudited)		
	Six months ended 30 June 2012		
	Aircraft, engines and flight equipment RMB'000	Others RMB'000	Total RMB'000
Carrying amounts at 1 January 2012	65,603,566	8,154,229	73,757,795
Transfers from advanced payments on acquisition of aircraft <i>(Note 16)</i>	3,356,945	–	3,356,945
Other additions	3,310,715	1,524,246	4,834,961
Depreciation charges	(3,270,555)	(323,628)	(3,594,183)
Disposals	(31,066)	(45,320)	(76,386)
Carrying amounts at 30 June 2012	68,969,605	9,309,527	78,279,132

16. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

	(Unaudited)	
	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
At beginning of period	11,894,891	10,968,344
Additions	7,313,117	2,193,244
Interest capitalised <i>(Note 8)</i>	193,725	138,407
Transfers to property, plant and equipment <i>(Note 15)</i>	(5,231,841)	(3,356,945)
At end of period	14,169,892	9,943,050

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. TRADE RECEIVABLES

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

The aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Within 90 days	3,644,152	2,851,736
91 to 180 days	199,142	68,488
181 to 365 days	132,144	35,995
Over 365 days	222,084	208,770
	4,197,522	3,164,989
Less: provision for impairment of receivables	(206,616)	(202,808)
Trade receivables	3,990,906	2,962,181

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18. TRADE PAYABLES AND NOTES PAYABLE

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

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Within 90 days	1,051,713	1,473,087
91 to 180 days	893,892	397,815
181 to 365 days	688,635	675,630
Over 365 days	785,441	528,793
Trade payables	3,419,681	3,075,325

As at 30 June 2013, trade payables and notes payable balances of the Group included amounts due to related parties of RMB1,831 million (2012: RMB1,950 million) (Note 24 (b)(ii)).

As at 30 June 2013, notes payable amounted to RMB400 million (2012: RMB250 million), which were mainly unsecured, bore effective interests rates ranging from 3.95% to 4.2% (2012: 4.65% to 4.68%) and are repayable within six months.

19. OBLIGATIONS UNDER FINANCE LEASES

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Within one year	2,589,090	2,605,269
In the second year	2,684,073	2,704,168
In the third to fifth year inclusive	7,450,695	7,924,892
After the fifth year	7,413,022	8,623,649
Total	20,136,880	21,857,978
Less: amount repayable within one year	(2,589,090)	(2,605,269)
Long-term portion	17,547,790	19,252,709

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20. BORROWINGS

		(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Non-current			
Long-term bank borrowings			
– Secured		14,647,318	15,780,892
– Unsecured		5,469,471	4,815,271
Guaranteed bonds	<i>(i)</i>	9,480,239	2,500,000
		29,597,028	23,096,163
Current			
Current portion of long-term bank borrowings			
– Secured		2,154,962	2,612,055
– Unsecured		6,179,190	7,147,656
Short-term bank borrowings			
– Unsecured		10,350,159	8,880,244
Short-term bank debentures	<i>(ii)</i>	4,000,000	4,000,000
		22,684,311	22,639,955
Total borrowings		52,281,339	45,736,118

Note:

(i) For the period ended 30 June 2013, the Group issued guaranteed bonds of RMB4,800 million and RMB2,200 million with interest rates of 5.05% and 3.875% per annum, respectively. The aforesaid guaranteed bonds are due 2023 and 2016, respectively.

(ii) For the period ended 30 June 2013, the Group issued short-term bank debentures of RMB4,000 million bearing the interest rate of 3.95% per annum. The aforesaid short-term bank debentures are due 2014.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21. POST-RETIREMENT BENEFIT OBLIGATIONS

The Group operates a defined benefit pension plan in China.

IAS 19R has been applied retrospectively from 1 January 2012. As a result, expected returns on plan assets of defined benefit plans are not recognised in profit or loss. Instead, interest on net defined benefit obligation is recognised in profit or loss, calculated using the discount rate used to measure the net pension obligation or asset.

Also, unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead, all past service costs are recognised at the earlier of when the amendment occurs and when the Group recognises related restructuring or termination costs. Until 2012, the Group's unvested past service costs were recognised as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to IAS 19R, past service costs are recognised immediately if the benefits have vested immediately following the introduction of, or changes to, a pension plan.

Impact of transition to IAS 19R:

Impact on consolidated statement of financial position:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Increase in the defined benefit plan obligation (non-current)	(2,896,795)	(2,888,323)
Increase in deferred tax assets	74,390	70,098
Net impact on equity	(2,822,405)	(2,818,225)
Equity holders of the parent	(2,683,010)	(2,690,502)
Non-controlling interest	(139,395)	(127,723)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21. POST-RETIREMENT BENEFIT OBLIGATIONS *(cont'd)***Impact on consolidated income statement:**

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Decrease in wages, salaries and benefits	51,726	62,109
Increase in deferred tax expense	(1,059)	(1,184)
Net increase profit for the period	50,667	60,925
Attributable to equity holders of the Company	46,504	58,728
Non-controlling interest	4,163	2,197
(Decrease)/increase in actuarial movements in OCI	(60,200)	23,024
Increase/(decrease) in tax effect on actuarial movements in OCI	5,352	(61)
Net (decrease)/increase in OCI, net of tax	(54,848)	22,963
Net (decrease)/increase in total comprehensive income	(4,181)	83,888
Attributed to equity holders of the Company	(2,061)	81,577
Non-controlling interest	(2,120)	2,311

There was no material impact on the Group's interim condensed consolidated statement of cash flows.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22. SHARE CAPITAL

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Registered, issued and fully paid of RMB1.00 each		
A shares listed on The Shanghai Stock Exchange ("A Shares")	8,481,079	7,782,214
– Tradable shares held by CEA Holding with trading moratorium	241,548	–
– Tradable shares held by CES Finance Holding Co., Ltd. with trading moratorium (<i>Note</i>)	457,317	–
– Tradable shares without trading moratorium	7,782,214	7,782,214
H shares listed on The Stock Exchange of Hong Kong Limited ("H Shares")	4,193,190	3,494,325
– Tradable shares held by CES Global Holding (Hong Kong) Limited with trading moratorium (<i>Note</i>)	698,865	–
– Tradable shares without trading moratorium	3,494,325	3,494,325
	12,674,269	11,276,539

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

Note:

New issued shares during the six months ended 30 June 2013 are all shares with a trading moratorium.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments:

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Authorised and contracted for:		
– Aircraft, engines and flight equipment	155,878,059	172,092,301
– Other property, plant and equipment	1,095,368	1,125,000
	156,973,427	173,217,301
Authorised but not contracted for:		
– Other property, plant and equipment	3,960,196	3,257,416
	160,933,623	176,474,717

(b) Operating lease commitments

As at the balance sheet date, the Group had commitments under operating leases to pay future minimum lease rentals as follows:

	(Unaudited) 30 June 2013		(Audited) 31 December 2012	
	Aircraft, engines and flight equipment RMB'000	Land and Buildings RMB'000	Aircraft, engines and flight equipment RMB'000	Land and Buildings RMB'000
Within one year	3,785,984	310,179	3,833,550	240,084
In the second year	3,326,419	203,770	3,504,777	176,726
In the third to fifth year inclusive	7,809,195	464,492	7,900,135	413,229
After the fifth year	5,224,373	2,252,298	6,438,693	2,072,525
Total	20,145,971	3,230,739	21,677,155	2,902,564

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which directly owns 40.03% of the Company's shares as at 30 June 2013 (2012: 42.84%). In addition, through CES Global Holding (Hong Kong) Limited, a wholly owned subsidiary of CEA Holding, CEA Holding additionally owns approximately 20.72% of the Company's shares as at 30 June 2013 (2012: 17.09%). Through CES Finance Holding Co., Ltd., a wholly owned subsidiary of CEA Holding, CEA Holding additionally owns approximately 3.61% of the Company's shares as at 30 June 2013.

(a) Related party transactions

Nature of transactions	Related party	(Unaudited)	
		Income/(expense or payments)	
		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding:			
Interest income on deposits at an average rate of 0.35% per annum (2012: 0.35% per annum)	Eastern Air Group Finance Co., Ltd. ("Eastern Finance")	13,502	20,959
Interest expense on loans at rate of 4.57% (2012: 4.57%) per annum	Eastern Finance	(17,638)	(110,250)
Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% the value of tickets sold	Shanghai Dongmei Aviation Travel Co., Ltd. ("Shanghai Dongmei") and its subsidiaries	(4,634)	(8,425)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. RELATED PARTY TRANSACTIONS (cont'd)

(a) Related party transactions (cont'd)

Nature of transactions	Related party	(Unaudited)	
		Income/(expense or payments)	
		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
Handling charges of 0.1% to 2% for purchase of aircrafts, flight equipment, flight equipment spare parts, other property, plant and flight equipment and repairs for aircraft and engines	Eastern Aviation Import & Export Co., Ltd. ("Eastern Import & Export")	(51,278)	(37,207)
Repairs and maintenance expense for aircraft and engines	Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	(33,311)	(28,677)
	Shanghai Technologies Aerospace Co., Ltd.	(73,528)	(68,767)
	Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd. ("Shanghai P&W")	(786,618)	(798,290)
Supply of food and beverages	Shanghai Eastern Air Catering Co., Ltd. ("Shanghai Catering") and its subsidiaries	(430,425)	(387,607)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. RELATED PARTY TRANSACTIONS *(cont'd)*(a) Related party transactions *(cont'd)*

Nature of transactions	Related party	(Unaudited)	
		Income/(expense or payments)	
		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
Advertising expense	Eastern Aviation Advertising Services Co., Ltd.	(2,881)	(6,151)
Media royalty fee	Eastern Aviation Advertising Services Co., Ltd.	—	6,934
Maintenance and repair services fee	CEA Development Co., Ltd.	(68,824)	(58,648)
	Shanghai Hute Aviation Technology Co., Ltd.	(28,937)	(20,301)
Land and building rental	CEA Holding	(28,752)	(21,751)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. RELATED PARTY TRANSACTIONS *(cont'd)***(b) Balances with related parties***(i) Amounts due from related parties*

Nature	Company	(Unaudited)	(Audited)
		30 June 2013 RMB'000	31 December 2012 RMB'000
Trade receivables	Kunming Dongmei Aviation Travel Co., Ltd.	–	4,213
	Shanghai Eastern Aviation International Travel and Transportation Co., Ltd.	7,956	–
	Others	15,042	4,308
		22,998	8,521
Other receivables	Eastern Import & Export	70,942	370,125
	Eastern China Kaiya System Integration	16,609	19,694
	Others	34,516	13,025
		122,607	402,844

All the amounts due from related parties are interest free and unsecured, within normal credit terms given to trade customers.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. RELATED PARTY TRANSACTIONS *(cont'd)***(b) Balances with related parties** *(cont'd)**(ii) Amounts due to related parties*

Nature	Company	(Unaudited)	(Audited)
		30 June 2013 RMB'000	31 December 2012 RMB'000
Trade payables and notes payable	Eastern Import & Export	1,207,625	1,210,603
	Shanghai P&W	377,634	467,885
	Shanghai Catering	141,772	134,696
	Others	103,722	136,460
		1,830,753	1,949,644
Other payables and accrued expenses	Eastern Import & Export	169,960	96,861
	CEA Holding	65,183	73,020
	Others	99,668	25,003
		334,811	194,884

Except for the amounts due to CEA Holding, which are reimbursement in nature, all other amounts due to related parties are trade in nature. All note payable amounts due to related parties are interest free and payable within normal credit terms given by trade creditors.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. RELATED PARTY TRANSACTIONS *(cont'd)***(b) Balances with related parties** *(cont'd)**(iii) Short-term deposits and borrowings with an associate and CEA Holding*

	Average interest rate		(Unaudited)	(Audited)
	30 June	31 December	30 June	31 December
	2013	2012	2013	2012
			RMB'000	RMB'000
Short-term deposits (included in Prepayments, Deposits and Other Receivables) in Eastern Finance	0.61%	0.39%	522,771	1,451,526
Short-term borrowings (included in Borrowings) from Eastern Finance	4.52%	4.98%	2,319,144	675,426
Long-term borrowings (included in Borrowings) from Eastern Finance	5.76%	5.64%	165,000	165,000

(c) Guarantees by holding company

As at 30 June 2013, bonds of the Group with an aggregate amount of RMB4,800 million were guaranteed by CEA Holding. (As at 30 June 2012, bank borrowings of the Group with an aggregate amount of RMB95 million were guaranteed by CEA Holding).

25. SEASONALITY

The civil aviation industry is subject to seasonal fluctuations, with peak demand during the holiday season in the second half of the year. As such, the revenues and results of the Group in the first half of the year are generally lower than those in the second half of the year.

ISSUER

Eastern Air Overseas (Hong Kong) Corporation Limited
22/F., Jubilee Centre
18 Fenwick Street, Wanchai, Hong Kong

COMPANY

China Eastern Airlines Corporation Limited
66 Airport Street
Pudong International Airport
Shanghai 201202, PRC

AUDITORS OF THE COMPANY

PricewaterhouseCoopers
22/F Prince's Building
Central
Hong Kong

Ernst & Young
22nd Floor CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

TRUSTEE

DB Trustees (Hong Kong) Limited
52nd Floor
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

**PRINCIPAL PAYING AGENT,
REGISTRAR, TRANSFER
AGENT AND CMU LODGING AGENT**

Deutsche Bank AG, Hong Kong Branch
52nd Floor
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

LEGAL ADVISERS

To the Issuer as to Hong Kong law
O'Melveny & Myers
31/F AIA Central
1 Connaught Road Central
Hong Kong

To the Company as to PRC law
Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Beijing 100022, PRC

To the Joint Lead Managers as to Hong Kong law
Linklaters
10th Floor, Alexandra House
Chater Road
Hong Kong

To the Joint Lead Managers as to PRC law
Global Law Office
15&20/F, Tower 1, China Central Place
No.81 Jianguo Road
Chaoyang District, Beijing
PRC

To the Trustee as to Hong Kong law
Linklaters
10th Floor, Alexandra House
Chater Road
Hong Kong