

CHINA EASTERN AIRLINES CORP LTD
Form 6-K
August 25, 2009

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

FORM 6-K

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

For the month of August 2009

Commission File Number: 001-14550

China Eastern Airlines Corporation Limited

(Translation of Registrant's name into English)

2550 Hongqiao Road
Hongqiao Airport
Shanghai, China 200335

(Address of principal executive offices)

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

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

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

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

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

SIGNATURES

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

China Eastern Airlines Corporation Limited
(Registrant)

Date August 25, 2009

By /s/ Luo Zhuping
Name: Luo Zhuping
Title: Company Secretary

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

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Eastern Airlines Corporation Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Stock Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this 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 circular.

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 00670)

MAJOR TRANSACTION
PURCHASE OF TWENTY AIRBUS A320 SERIES AIRCRAFT

25 August 2009

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

| | |
|---------------|--|
| “Agreement” | means the agreement entered into between the Company and Airbus SAS on 15 June 2009 regarding the purchase of the Aircraft; |
| “Airbus SAS” | means Airbus SAS, a company created and existing under the laws of France; |
| “Aircraft” | means twenty brand new Airbus A320 series aircraft (with engines); |
| “A Shares” | means the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in RMB and are listed on the Shanghai Stock Exchange; |
| “Board” | means the board of directors of the Company; |
| “CEA Holding” | means (China Eastern Air Holding Company), a wholly State-owned enterprise and the controlling shareholder of the Company holding approximately 56.08% of its issued share capital as at the Latest Practicable Date; |
| “CES Global” | mean () (CES Global Holdings (Hong Kong) Limited), a incorporated under the laws of Hong Kong, and an indirectly wholly owned subsidiary of CEA Holding and a substantial shareholder of the Company holding approximately 18.57% of its issued share capital as at the Latest Practicable Date; |
| “Company” | means (China Eastern Airlines Corporation Limited), a joint limited company incorporated in the PRC with limited liability, whose H shares, A shares and American depositary shares are listed on the Stock Exchange, the Shanghai Stock Exchange and the New York Stock Exchange, Inc., respectively; |
| “Directors” | means the directors of the Company; |
| “Group” | means the Company and its subsidiaries; |

DEFINITIONS

| | |
|---------------------------|--|
| “Enlarged Group” | means the Group after the completion of the proposed absorption of Shanghai Airlines (For details of the proposed absorption of Shanghai Airlines, please refer to the announcement of the Company dated 10 July 2009 and the circular of the Company dated 25 August 2009); |
| “Hong Kong” | means the Hong Kong Special Administrative Region of the People’s Republic of China; |
| “H Shares” | means the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than RMB and are listed on the Stock Exchange; |
| “Latest Practicable Date” | means 20 August 2009, being the latest practicable date for ascertaining certain information included herein before the printing of this circular; |
| “Listing Rules” | means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |
| “PRC” | means the People’s Republic of China; |
| “PwC” | means PricewaterhouseCoopers; |
| “RMB” | means renminbi, the lawful currency of the PRC; |
| “SFO” | means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); |
| “Shanghai Airlines” | means (Shanghai Airlines Co., Ltd), a PRC airlines company with its entire shares listed on the Shanghai Stock Exchange; |
| “Stock Exchange” | means The Stock Exchange of Hong Kong Limited; and |
| “US\$” | means United States dollar, the lawful currency of the United States of America. |

For illustration purpose only, an exchange rate of US\$1.00 to RMB6.83 has been applied. No representation is made that any amount in RMB or US\$ could have been or could be converted at such rate or at any other rate or at all.

LETTER FROM THE BOARD

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 00670)

Directors:

Liu Shaoyong (Chairman)
Li Jun (Vice Chairman)
Ma Xulun (Director, President)
Luo Chaogeng (Director)
Luo Zhuping (Director, Company Secretary)

Legal address:

66 Airport Street
Pudong International Airport
Shanghai
PRC

Independent non-executive Directors:

Hu Honggao
Wu Baiwang
Zhou Ruijin
Xie Rong
Sandy Ke-Yaw Liu

Head office:

2550 Hongqiao Road
Shanghai
PRC

Principal place of business

in Hong Kong:
Unit B, 31/F.
United Centre
95 Queensway
Hong Kong

Hong Kong share registrar and
transfer office:

Hong Kong Registrars Limited
Rooms 1712-1716,
17th Floor Hopewell Centre
183 Wanchai Queen's Road East
Hong Kong

25 August 2009

To the shareholders of the Company

Dear Sir or Madam,

MAJOR TRANSACTION

PURCHASE OF TWENTY AIRBUS A320 SERIES AIRCRAFT

1. INTRODUCTION

As disclosed in the Company's announcement dated 17 June 2009, the Company entered into the Agreement with Airbus SAS regarding the purchase of twenty Airbus A320 series aircraft (with engines).

LETTER FROM THE BOARD

The Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

2. THE PARTIES

The Company is principally engaged in the business of civil aviation.

Airbus SAS, to the Directors' knowledge, is a company incorporated in France and is principally engaged in the business of manufacturing and selling aircraft.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Airbus SAS and its ultimate beneficial owner(s) are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company, and are not connected persons of the Company.

3. THE AGREEMENT

On 15 June 2009, the Company entered into the Agreement with Airbus SAS regarding the purchase of the Aircraft in accordance with the terms and conditions thereof.

Based on the information provided by Airbus SAS, the total asset value of the Aircraft, as determined by reference to the relevant catalogue price supplied by Airbus SAS, amounts in aggregate to approximately US\$1.452 billion (approximately RMB9.917 billion).

Consideration

The aircraft basic price of the Aircraft in aggregate is approximately US\$1.452 billion (RMB9.917 billion) based on the relevant price catalog in 2008. Such aircraft basic price comprises the airframe price (which is subject to price escalation by applying a formula), optional features prices and engine price.

The Agreement was negotiated and entered into in accordance with customary business and industry practice, under which Airbus SAS has granted to the Company material price concessions with regard to the Aircraft. These will take the form of credit memoranda which may be used by the Company towards the purchase of the Aircraft or spare parts, goods and services or may be used towards the final delivery invoice payment of the Aircraft. Such credit memoranda were determined after arm's length negotiations between the parties and as a result, the actual consideration for the Aircraft is lower than the aircraft basic price of the Aircraft mentioned above.

Based on such actual consideration under the Agreement, the relevant "percentage ratio" calculated under Rule 14.07 of the Listing Rules at the material time is above 25% but less than 100%, the Agreement constitutes a major transaction of the Company under the Listing Rules. In respect of the transaction, the Company understands its disclosure obligations normally required under Chapter 14 of the Listing Rules, and has therefore on separate occasions raised the issue with Airbus SAS in order to seek its consent to the Company's disclosing certain otherwise required information (including the relevant consideration involved) in the relevant announcements and circulars. Nonetheless, Airbus SAS, for business reasons and from a commercial perspective, did not accede to the Company's request in this respect, and insisted preservation of the confidentiality carried with such information to the extent possible. The Company has made an application to the Stock Exchange for a waiver from strict compliance with the relevant provisions (including Rules 14.58(4) and 14.66(4) of the Listing Rules) under the Listing Rules in respect of the

disclosure of the actual consideration for the Aircraft.

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LETTER FROM THE BOARD

The price concessions will mainly affect the depreciation of aircraft in the operation cost of the Company. The Company confirms that the extent of the price concessions granted to the Company under the Agreement is comparable with the price concessions that the Company had obtained under its previous agreement entered into in July 2007 with Airbus SAS regarding the purchase of certain Airbus A320 series aircraft. Therefore, the Company believes that there is no material impact of the price concessions obtained under the Agreement on the Company's operating costs taken as a whole.

The Company has also taken into account the current economic environment, the industry performance and the Company's financial position, and considers that the extent of the price concessions granted to the Company under the Agreement are fair and reasonable and in the interests of the shareholders of the Company.

Payment terms and source of funding

The consideration under the Agreement is payable by cash in US\$ in instalments, and is, as currently contemplated, being funded principally by way of bank loans or other financial arrangements from banking institutions.

Delivery

The Aircraft are expected to be delivered to the Company in stages from 2011 to 2013.

Reasons for and benefits expected to accrue to the Company

The Aircraft are purchased on the basis of the assessment that the business of the Company will have steady and organic growth over the next few years when the global economy Company recovers. Further, the Company believes that, in the next few years, the domestic passenger transport market will develop with a better prospect. The Company therefore expects that the Aircraft to be introduced will satisfy the increasing demand in the domestic short to middle range passenger air-routes. It is also believed that the transaction will enhance the Company's market share and competitiveness in the market segment serving short to middle range passenger air- routes, thereby improving its aviation network coverage and profitability.

The transaction has been approved by the Board and will be approved by the relevant regulatory authority(ies) in the PRC in compliance with the relevant regulatory requirements.

The Directors believe that the terms of the Agreement (including the price concessions under the Agreement) are fair and reasonable and in the interests of the Company's shareholders as a whole.

LETTER FROM THE BOARD

Financial impact of the transaction

As mentioned above, the consideration is being funded principally by way of financial arrangements with banking institutions. The transaction may therefore result in an increase in the Company's debt-to-equity ratio, but is not expected to impact on the Company's cash-flow position or its business operations. Since the consideration under the Agreement is payable by instalments, the purchase of the Aircraft will not add immediate financial burden to the Company. The transaction is not expected to result in any material impact on the earnings, assets and liabilities of the Group.

4. IMPLICATIONS UNDER THE LISTING RULES

The Agreement constitutes a major transaction of the Company under the Listing Rules and is subject to shareholders' approval.

CEA Holding, which holds approximately 56.08% of the issued share capital of the Company, as at the Latest Practicable Date, does not have any interest or benefit under the Agreement. No shareholder (including CEA Holding) would be required to abstain from voting at any shareholders' general meeting, if convened, to approve the Agreement.

The Agreement has accordingly been approved in writing by CEA Holding pursuant to Rule 14.44 of the Listing Rules, and no general meeting is required to be convened.

5. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board

CHINA EASTERN AIRLINES CORPORATION LIMITED
Luo Zhuping
Director and Company Secretary

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

A. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2006, 2007 and 2008, as extracted from the relevant annual reports of the Company which are not subject to any qualified opinion, and the unaudited condensed consolidated income statement data of the Group for the six months ended 30 June 2008 and 2009 as extracted from the interim result announcement of the Company for the six months ended 30 June 2009. The figures for the years ended 31 December 2006 and 2007 have been restated as a result of the changes of accounting policy for property, plant and equipment and the early adoption of IFRIC 13 ‘‘Customer loyalty programmes’’ in the year ended 31 December 2008.

Results

Expressed in RMB millions

| | Year ended 31 December | | | Six months ended 30 June | |
|-------------------------------|------------------------|--------------------|----------|-----------------------------|---------------------|
| | 2006 (Restated) | 2007 (Restated) | 2008 | 2008 (Unaudited) | 2009 (Unaudited) |
| Revenues | 37,557 | 42,534 | 41,073 | 20,267 | 17,130 |
| (Loss)/profit before tax | (3,338) | 378 | (15,256) | (107) | 1,012 |
| Income tax | 163 | (24) | (73) | (45) | 16 |
| (Loss)/profit for the year | (3,175) | 354 | (15,329) | (152) | 1,028 |
| Attributable to: | | | | | |
| Equity holders of the Company | (3,035) | 379 | (15,269) | (175) | 985 |
| Minority interests | (140) | (25) | (60) | 23 | 43 |
| | (3,175) | 354 | (15,329) | (152) | 1,028 |

Financial Position

Expressed in RMB millions

| | As at 31 December | | | 30 June | |
|--|--------------------|--------------------|----------|---------------------|---------------------|
| | 2006 (Restated) | 2007 (Restated) | 2008 | 2008 (Unaudited) | 2009 (Unaudited) |
| Total assets | 60,739 | 67,741 | 73,052 | 72,840 | |
| Total liabilities | 58,052 | 64,809 | 85,691 | 77,410 | |
| | 2,687 | 2,933 | (12,639) | (4,570) | |
| Minority interests | 649 | 572 | 458 | 501 | |
| Capital and reserves attributable to equity holders of the Company | 2,038 | 2,361 | (13,097) | (5,071) | |

| | | | |
|-------|-------|----------|---------|
| 2,687 | 2,933 | (12,639) | (4,570) |
|-------|-------|----------|---------|

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APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

B. UNAUDITED INTERIM FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2009

The following are the unaudited condensed consolidated interim financial information of the Group prepared under IFRS for the six months ended 30 June 2009 which are extracted from the interim result announcement of the Company.

Prepared in accordance with International Financial Reporting Standards (“IFRS”)

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2009

| | | (Unaudited) | |
|---|------|--------------------------|------------------|
| | | Six months ended 30 June | |
| | | 2009 | Restated 2008 |
| | Note | RMB'000 | RMB'000 |
| Revenues | 4 | 17,130,451 | 20,267,185 |
| Other income | 5 | 1,112,871 | 180,031 |
| Other gains | 5 | — | 220,498 |
| Operating expenses | | | |
| Aircraft fuel | | (5,121,130) | (8,662,568) |
| Gain on fair value movements of fuel option contracts | 6 | 2,793,718 | 451,043 |
| Take-off and landing charges | | (2,673,337) | (2,654,302) |
| Depreciation and amortisation | | (2,529,044) | (2,292,718) |
| Wages, salaries and benefits | | (2,270,011) | (2,028,985) |
| Aircraft maintenance | | (1,209,545) | (1,081,840) |
| Food and beverages | | (612,623) | (658,058) |
| Aircraft operating lease rentals | | (1,267,175) | (1,362,399) |
| Other operating lease rentals | | (191,595) | (167,780) |
| Selling and marketing expenses | | (859,817) | (801,723) |
| Civil aviation infrastructure levies | | (426,846) | (373,380) |
| Ground services and other charges | | (130,777) | (78,549) |
| Office, administrative and other expenses | | (1,718,508) | (1,945,791) |
| Total operating expenses | | (16,216,690) | (21,657,050) |
| Operating profit/(loss) | | 2,026,632 | (989,336) |
| Finance income | 7 | 145,937 | 1,960,625 |
| Finance costs | 8 | (1,130,929) | (1,130,898) |
| Share of results of associates | | (37,397) | 45,700 |
| Share of results of jointly controlled entities | | 8,170 | 6,869 |
| Profit/(loss) before income tax | | 1,012,413 | (107,040) |
| Income tax | 9 | 15,446 | (44,664) |

| | | |
|------------------------------|-----------|-----------|
| Profit/(loss) for the period | 1,027,859 | (151,704) |
|------------------------------|-----------|-----------|

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APPENDIX I FINANCIAL INFORMATION OF THE GROUP

| | Note | (Unaudited) | |
|---|------|--------------------------|------------------|
| | | Six months ended 30 June | |
| | | 2009 | Restated 2008 |
| | | RMB'000 | RMB'000 |
| Other comprehensive income/(loss) | | | |
| Fair value movements of available for sale investments held by associates | | 788 | (19,196) |
| Cash flow hedges, net of tax | | 55,857 | (22,900) |
| Other comprehensive income/(loss) for the period | | 56,645 | (42,096) |
| Total comprehensive income/(loss) for the period | | 1,084,504 | (193,800) |
| Profit/(loss) attributable to: | | | |
| Equity holders of the Company | | 984,654 | (175,318) |
| Minority interests | | 43,205 | 23,614 |
| | | 1,027,859 | (151,704) |
| Total comprehensive income/(loss) attributable to: | | | |
| Equity holders of the Company | | 1,041,299 | (217,414) |
| Minority interests | | 43,205 | 23,614 |
| | | 1,084,504 | (193,800) |
| Earnings/(loss) per share attributable to the equity holders of the Company during the period | | | |
| — Basic and diluted | 10 | RMB 0.20 | RMB (0.04) |

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

Condensed Consolidated Balance Sheet
As at 30 June 2009

| | | (Unaudited) 30 June 2009 RMB'000 | (Audited) 31 December 2008 RMB'000 |
|--|------|---|---|
| | Note | | |
| Non-current assets | | | |
| Intangible assets | | 116,402 | 164,851 |
| Property, plant and equipment | 13 | 53,351,228 | 52,678,473 |
| Lease prepayments | | 983,767 | 996,521 |
| Advanced payments on acquisition of aircraft | 14 | 5,667,142 | 6,413,554 |
| Investments in associates | | 703,710 | 980,319 |
| Investments in jointly controlled entities | | 370,502 | 362,332 |
| Available-for-sale financial assets | | 61,268 | 31,268 |
| Other long-term assets | | 874,585 | 941,556 |
| Deferred tax assets | | 110,475 | 81,947 |
| Derivative assets | | — | 988 |
| | | 62,239,079 | 62,651,809 |
| Current assets | | | |
| Flight equipment spare parts | | 918,384 | 871,364 |
| Trade receivables | 15 | 1,263,507 | 1,146,522 |
| Amounts due from related companies | | 204,757 | 208,289 |
| Prepayments, deposits and other receivables | | 3,954,369 | 4,126,219 |
| Cash and cash equivalents | | 3,796,963 | 3,451,010 |
| Derivative assets | | 208 | 123,010 |
| Non-current assets held for sale | | 462,700 | 473,667 |
| | | 10,600,888 | 10,400,081 |
| Current liabilities | | | |
| Sales in advance of carriage | | 1,119,648 | 1,013,878 |
| Trade payables and notes payable | 16 | 4,420,470 | 5,144,858 |
| Amounts due to related companies | | 476,539 | 413,126 |
| Other payables and accrued expenses | | 11,407,689 | 12,147,175 |
| Current portion of obligations under finance leases | 17 | 2,018,328 | 1,916,989 |
| Current portion of borrowings | 18 | 22,723,843 | 26,513,320 |
| Income tax payable | | 22,285 | 39,002 |
| Current portion of provision for return check conditions for aircraft under operating leases | | 333,547 | 213,830 |
| Derivative liabilities | | 2,229,316 | 6,456,075 |
| | | 44,751,665 | 53,858,253 |
| Net current liabilities | | (34,150,777) | (43,458,172) |
| Total assets less current liabilities | | 28,088,302 | 19,193,637 |

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

| | Note | (Unaudited) 30 June 2009 RMB'000 | (Audited) 31 December 2008 RMB'000 |
|---|------|---|---|
| Non-current liabilities | | | |
| Obligations under finance leases | 17 | 18,379,006 | 18,891,910 |
| Borrowings | 18 | 9,851,317 | 8,588,052 |
| Provision for return check conditions for aircraft under operating leases | | 1,344,391 | 1,320,188 |
| Other long-term liabilities | | 1,264,318 | 1,320,759 |
| Post-retirement benefit obligations | | 1,648,420 | 1,469,124 |
| Deferred tax liabilities | | 41,139 | 57,589 |
| Derivative liabilities | | 129,578 | 185,524 |
| | | 32,658,169 | 31,833,146 |
| Net liabilities | | (4,569,867) | (12,639,509) |
| Equity | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| — Share capital | 19 | 7,741,700 | 4,866,950 |
| — Reserves | | (12,812,664) | (17,964,351) |
| | | (5,070,964) | (13,097,401) |
| Minority interests | | 501,097 | 457,892 |
| Total equity | | (4,569,867) | (12,639,509) |

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2009

| | (Unaudited) | |
|---|--------------------------|-------------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Net cash (outflow)/inflow from operating activities | (563,422) | 1,215,900 |
| Net cash outflow from investing activities | (1,840,210) | (2,990,581) |
| Net cash inflow from financing activities | 2,746,009 | 4,772,018 |
| Net increase in cash and cash equivalents | 342,377 | 2,997,337 |
| Cash and cash equivalents at 1 January | 3,451,010 | 1,655,244 |
| Exchange adjustments | 3,576 | (34,782) |
| Cash and cash equivalents at 30 June | 3,796,963 | 4,617,799 |

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

Condensed Consolidated Statement of Changes in Shareholders' Equity
For the six months ended 30 June 2009

| | Attributable to equity holders of the Company | | | Subtotal RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|---|---|------------------------------|----------------------------------|---------------------|----------------------------------|-------------------------|
| | Share capital RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | | | |
| Six months ended 30 June 2009 (Unaudited) | | | | | | |
| Balance at 1 January 2009 | 4,866,950 | 117,911 | (18,082,262) | (13,097,401) | 457,892 | (12,639,509) |
| Total comprehensive income for the period ended 30 June 2009 | — | 56,645 | 984,654 | 1,041,299 | 43,205 | 1,084,504 |
| Issuance of new shares (Note 19) | 2,874,750 | 4,110,388 | — | 6,985,138 | — | 6,985,138 |
| Balance at 30 June 2009 | 7,741,700 | 4,284,944 | (17,097,608) | (5,070,964) | 501,097 | (4,569,867) |
| Six months ended 30 June 2008 (Unaudited) | | | | | | |
| Balance at 1 January 2008 (restated, Note 3(b)(i)) | 4,866,950 | 307,351 | (2,813,730) | 2,360,571 | 571,985 | 2,932,556 |
| Total comprehensive (loss)/income for the period ended 30 June 2008 | — | (42,096) | (175,318) | (217,414) | 23,614 | (193,800) |
| Dividends paid to minority interests in subsidiaries | — | — | — | — | (51,700) | (51,700) |
| Balance at 30 June 2008 | 4,866,950 | 265,255 | (2,989,048) | 2,143,157 | 543,899 | 2,687,056 |

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 its registered office is 66 Airport Street, Pudong International Airport, Shanghai, the PRC. The Company and its subsidiaries (together, the “Group”) are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, and mail delivery and other extended transportation services.

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

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

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 2009 (the “Current Period”) has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with IFRS.

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 difficulties.

As at 30 June 2009, the Group’s accumulated losses were approximately RMB17.10 billion; its current liabilities exceeded its current assets by approximately RMB34.15 billion; and total liabilities exceeded total assets by approximately RMB4.57 billion.

Against this background, the Directors have taken active steps to seek additional sources of finance and improve the Group’s liquidity position. As at 30 June 2009, the unutilised banking facilities available to the Group amounted to RMB48.79 billion. On 31 July 2009, a banking credit facility of RMB30 billion obtained by CEA Holding was granted to the Company (see Note 24(c) — “Post balance sheet events” for details). In addition, on 10 July 2009, a resolution to issue new shares to certain strategic investors for a total amount of RMB7 billion was passed by the Board and will be submitted for shareholders’ approval in the coming extraordinary general meeting (see Note 24(a) — “Post balance sheet events” for details).

With the additional credit facilities and proposed new share issue described in the preceding paragraph, and based on history of obtaining necessary financing 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 and meet its liabilities as and when they fall due. Accordingly, it is appropriate that the financial information be prepared on a going concern basis and do not

include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

3. Accounting policies

Except as described in note 3(a) below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008, as described therein.

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

(a) Standards, amendment and interpretations effective in 2009

The Group has adopted the following new standards and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning 1 January 2009.

.IAS 1 (revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present one performance statement: the statement of comprehensive income. The interim financial information has been prepared in accordance with the revised disclosure requirements.

.IFRS 8, "Operating segments". IFRS 8 replaces IAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board that makes strategic decisions. The interim financial information has been prepared in accordance with the revised disclosure requirements.

.Amendment to IFRS 7, "Financial instruments: disclosures". The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. Adoption of the amended standard does not have impact on the disclosure of this interim financial information but the Group will make the relevant additional disclosures, where appropriate, in its financial statements for the year ending 31 December 2009.

The Group has not early adopted new standards, amendments to standards and interpretations which have been issued but are not effective for 2009. The Group is assessing the impact of these new standards, amendments to standards and interpretations but is not yet in a position to state whether any substantial changes to the Group's accounting policies or to the presentation of the financial statements will be required.

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(b)

Comparatives

(i) Changes of accounting policy in second half year of 2008 which were not reflected in the interim financial information for the six months ended 30 June 2008

In preparing the financial statements for the year ended 31 December 2008, the Group has made the following changes of accounting policy which were not reflected in the interim financial information for the six months ended 30 June 2008.

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

(2) Under IFRS, the Company has the option to use the revaluation model or historical cost model to account for its property, plant and equipment ("PP&E"). Prior to 2008, the Company adopted the revaluation model in accordance with IAS 16 as a result of Chinese regulatory requirements to revalue PP&E in connection with its listing in 1997. In 2008, the Company changed its IFRS accounting policy in respect of PP&E from the revaluation model to the historical cost model. The purposes of the change are set out in the notes to the financial statements for the year ended 31 December 2008.

The effect of the adoption of IFRIC 13 and change of accounting policy for PP&E on the consolidated interim financial information for the six months ended 30 June 2008 is set out below:

| | 2008 as previously presented RMB'000 | Effect of adoption of IFRIC 13 RMB'000 | Effect of change of accounting policy for PP&E RMB'000 | 2008 as restated RMB'000 |
|--|---|---|---|--------------------------------|
| Impact on consolidated statement of comprehensive income | | | | |
| Consolidated loss for the period | (188,883) | (40,320) | 77,499 | (151,704) |
| Loss per share attributable to equity holders of The Company | RMB (0.04) | RMB (0.008) | RMB 0.016 | RMB (0.04) |
| Impact on consolidated balance sheet at 1 January | | | | |

| | | | | |
|--|-----------|-----------|-----------|-----------|
| 2008 | | | | |
| Consolidated net assets | 3,612,729 | (345,115) | (335,058) | 2,932,556 |
| Capital and reserves attributable to the equity holders of the Company | 3,027,763 | (345,115) | (322,077) | 2,360,571 |
| Minority interests | 584,966 | — | (12,981) | 571,985 |

The comparative of this financial information has been restated to reflect the effect of the above changes of accounting policy.

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(ii) Other reclassification

Where necessary, prior period amounts have been reclassified to conform to changes in presentation in the Current Period.

4. Revenues and segment information

(a) Revenues

The Group is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

| | (Unaudited) Six months ended 30 June | |
|---------------------------|---|-----------------------------|
| | 2009 RMB'000 | Restated 2008 RMB'000 |
| Revenues | | |
| — Passenger | 15,024,026 | 16,806,864 |
| — Cargo and mail | 1,564,178 | 2,838,951 |
| Ground service income | 511,763 | 609,806 |
| Cargo handling income | 138,959 | 181,122 |
| Commission income | 89,112 | 91,761 |
| Others | 241,457 | 259,108 |
| | 17,569,495 | 20,787,612 |
| Less: Business tax (Note) | (439,044) | (520,427) |
| | 17,130,451 | 20,267,185 |

Note: The Group's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to PRC business tax levied at rates ranging from 3% to 5%, pursuant to the PRC tax rules and regulations.

(b) Segment information

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group has two business segments, namely passenger and cargo and logistics, which are structured and managed separately, according to the nature of their operations and the services they provide.

- (1) Passenger business segment includes cargo carried by passenger flights.

(2) Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

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

| | (Unaudited) | | | |
|---|----------------------|-----------------------------------|------------------------|------------------|
| | Passenger RMB'000 | Cargo and logistics RMB'000 | Unallocated RMB'000 | Total RMB'000 |
| Traffic revenues | 15,312,411 | 858,126 | — | 16,170,537 |
| Other revenues and operating income | 740,273 | 411,826 | 110,230 | 1,262,329 |
| Total segment revenue | 16,052,684 | 1,269,952 | 110,230 | 17,432,866 |
| Inter-segment revenue | (227,738) | — | (74,677) | (302,415) |
| Revenues | 15,824,946 | 1,269,952 | 35,553 | 17,130,451 |
| Operating profit/(loss) — segment results | 2,243,816 | (246,066) | 28,882 | 2,026,632 |

The segment results for the six months ended 30 June 2008 are as follows:

| | (Unaudited) | | | |
|---|----------------------|-----------------------------------|------------------------|------------------|
| | Passenger RMB'000 | Cargo and logistics RMB'000 | Unallocated RMB'000 | Total RMB'000 |
| Restated | | | | |
| Traffic revenues | 17,471,476 | 1,682,290 | — | 19,153,766 |
| Other revenues and operating income | 716,753 | 546,148 | 131,791 | 1,394,692 |
| Total segment revenue | 18,188,229 | 2,228,438 | 131,791 | 20,548,458 |
| Inter-segment revenue | (204,678) | — | (76,595) | (281,273) |
| Revenues | 17,983,551 | 2,228,438 | 55,196 | 20,267,185 |
| Operating (loss)/profit — segment results | (1,248,089) | 217,469 | 41,284 | (989,336) |

The Group's two business segments operate in four main geographical areas, even though they are managed on a worldwide basis.

The Group's revenues (net of business tax) by geographical segment are analysed based on the following criteria:

- (1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong")) is classified as domestic operations. Traffic revenue from inbound and outbound services between the PRC,

Hong Kong or overseas markets is attributed to the segments based on the origin and destination of each flight segment.

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(2) Revenue from ticket handling services, airport ground services and other miscellaneous services are classified on the basis of where the services are performed.

| | (Unaudited) | |
|---|--------------------------|------------------|
| | Six months ended 30 June | |
| | 2009 | Restated 2008 |
| | RMB'000 | RMB'000 |
| Domestic (the PRC, excluding Hong Kong) | 11,819,726 | 11,413,140 |
| Hong Kong | 907,905 | 1,252,177 |
| Japan | 1,294,072 | 1,726,060 |
| Other countries | 3,108,748 | 5,875,808 |
| Total | 17,130,451 | 20,267,185 |

5. Other income and other gains

| | (Unaudited) | |
|---|--------------------------|---------|
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Other income | | |
| — Refund of civil aviation infrastructure levies (Note (a)) | 830,622 | — |
| — Other government subsidies (Note (b)) | 282,249 | 180,031 |
| | 1,112,871 | 180,031 |
| Other gains | | |
| — Gains on disposal of property, plant and equipment | — | 220,498 |
| | 1,112,871 | 400,529 |

Note:

(a) Pursuant to Cai Jian (2009) No. 4, the civil aviation infrastructure levies collected from PRC domestic airlines for the period from 1 July 2008 to 30 June 2009 would be refunded. The amount for the Current Period represents the refunds of civil aviation infrastructure levies received and receivable by the Group.

(b) Other government subsidies represent (i) subsidies granted by the local government to the Group; and (ii) other subsidies granted by various local municipalities to encourage the Group to operate certain routes to cities where these municipalities are located.

6. Gain on fair value movements of fuel option contracts

In 2008, the Group entered into fuel hedging contracts to reduce the risk of changes in market oil/petroleum prices as a hedge against aircraft fuel costs. The fuel hedging contracts used by the Group are normally structured to include a combination of both put and call options which allow the Group to lock in fuel prices for specified volumes within a price range. In each hedging contract, the call options price at which the Group is effectively entitled to buy fuel will be higher than that at which the counterparty is effectively entitled to sell.

No fuel hedging contract was entered into by the Group for the Current Period, all the opened fuel hedging contracts as at 30 June 2009 are contracts entered into by the Group prior to 2009. None of the fuel hedging contracts entered into by the Group qualified for hedge accounting, the realised and unrealised mark to market gains/(losses) of the fuel hedging contracts during a period are recognised in the profit and loss accounts.

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| | 7. Finance income | |
|--|--------------------------|------------------|
| | (Unaudited) | |
| | Six months ended 30 June | |
| | 2009 | Restated 2008 |
| | RMB'000 | RMB'000 |
| Exchange gains, net (Note) | 16,425 | 1,891,422 |
| Interest income | 52,937 | 55,572 |
| Gains/(losses) arising from fair value movements of forward foreign exchange contracts | 76,575 | 13,631 |
| | 145,937 | 1,960,625 |

Note: The exchange gains primarily related to the retranslation of the Group's foreign currency denominated borrowings and obligations under finance leases at period end rates.

| | 8. Finance costs | |
|---|--------------------------|-----------|
| | (Unaudited) | |
| | Six months ended 30 June | |
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Interest relating to obligations under finance leases | 264,002 | 337,358 |
| Interest on loans from banks, financial institutions and other payables | 930,204 | 932,259 |
| Losses arising from fair value movements of interest rate swaps | 59,060 | 35,687 |
| | 1,253,266 | 1,305,304 |
| Less: amounts capitalised into advanced payments on acquisition of aircraft (Note 14) | (122,337) | (174,406) |
| | 1,130,929 | 1,130,898 |

Interest capitalised for the Current Period is based on average interest rate of 4.58% (2008 : 5.82%) per annum.

9. Income tax

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

| (Unaudited) | |
|--------------------------|---------|
| Six months ended 30 June | |
| 2009 | 2008 |
| RMB'000 | RMB'000 |

| | | |
|------------------------------|----------|---------|
| Provision for PRC income tax | 29,532 | 46,103 |
| Deferred taxation | (44,978) | (1,439) |
| | (15,446) | 44,664 |

Prior to 2008, the Company and certain of its subsidiaries (the “Pudong Subsidiaries”) located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong, Shanghai. Under the Corporate Income Tax Law of the People’s Republic of China (the “New CIT Law”) which was approved by the National People’s Congress on 16 March 2007 and became effective from 1 January 2008, the Company and the Pudong Subsidiaries are entitled to enjoy a transitional period to gradually increase the applicable corporate income tax rate to 25% in coming five years. For the year ending 31 December 2009, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries is 20% (2008 : 18%). Other subsidiaries of the Company, except for those incorporated in Hong Kong and being subject to the Hong Kong corporate income tax rate of 16.5% (2008 : 16.5%), are generally subject to the PRC standard corporate tax rate of 25% (2008 : 25%) under the New CIT Law.

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The Group operates international flights to overseas destinations. There was no material overseas taxation for the six months ended 30 June 2009, as there are double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

10. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the unaudited consolidated profit attributable to equity holders of the Company of RMB984,654,000 (2008 : loss of RMB175,318,000) and the weighted average number of shares of 4,954,304,000 (2008 : 4,866,950,000) in issue during the period.

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

11. Dividend

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008 : Nil).

12. Profit appropriation

No appropriation to the statutory reserves has been made during the six months ended 30 June 2009. Such appropriations will be made at year end in accordance with the PRC regulations and the Articles of Association of individual group companies.

13. Property, plant and equipment

| | (Unaudited) | | |
|--|--|-------------------|------------------|
| | Six months ended 30 June 2009 | | |
| | Aircraft, engines and flight equipment RMB'000 | Others RMB'000 | Total RMB'000 |
| Carrying amounts at 1 January 2009 | 47,759,942 | 4,918,531 | 52,678,473 |
| Transfers from advanced payments on acquisition of aircraft (Note 14) | 1,009,795 | — | 1,009,795 |
| Additions through sales and finance lease back | 590,253 | — | 590,253 |
| Other additions | 1,870,709 | 262,521 | 2,133,230 |
| Depreciation charged for the period | (2,211,713) | (249,770) | (2,461,483) |
| Disposals | (590,253) | (8,787) | (599,040) |
| Carrying amounts at 30 June 2009 | 48,428,733 | 4,922,495 | 53,351,228 |

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| | (Unaudited) | | |
|---|--|-------------------|------------------|
| | Six months ended 30 June 2008 | | |
| | Aircraft, engines and flight equipment RMB'000 | Others RMB'000 | Total RMB'000 |
| Restated | | | |
| Carrying amounts at 1 January 2008 | 42,758,022 | 4,511,732 | 47,269,754 |
| Transfers | | | |
| from advanced payments on acquisition of aircraft (Note 14) | 883,151 | — | 883,151 |
| Other additions | 1,702,237 | 295,368 | 1,997,605 |
| Depreciation charged for the period | (1,977,548) | (248,847) | (2,226,395) |
| Disposals | (78,920) | (31,636) | (110,556) |
| Carrying amounts at 30 June 2008 | 43,286,942 | 4,526,617 | 47,813,559 |

14. Advanced payments on acquisition of aircraft

| | (Unaudited) 30 June 2009 RMB'000 | (Unaudited) 30 June 2008 RMB'000 |
|--|---|---|
| At beginning of period | 6,413,554 | 6,695,573 |
| Additions | 141,046 | 3,439,877 |
| Interest capitalised (Note 8) | 122,337 | 174,406 |
| Transfers to property, plant and equipment (Note 13) | (1,009,795) | (883,151) |
| At end of period | 5,667,142 | 9,426,705 |

15. 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 2009 RMB'000 | (Audited) 31 December 2008 RMB'000 |
|----------------|---|---|
| Within 90 days | 1,233,809 | 1,088,951 |

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| | | |
|---|-----------|-----------|
| 91 to 180 days | 11,541 | 24,282 |
| 181 to 365 days | 17,212 | 30,451 |
| Over 365 days | 106,420 | 103,919 |
| | 1,368,982 | 1,247,603 |
| Less: provision for impairment of receivables | (105,475) | (101,081) |
| Trade receivables | 1,263,507 | 1,146,522 |

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16. Trade payables and notes payable

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

| | (Unaudited) 30 June 2009 RMB'000 | (Audited) 31 December 2008 RMB'000 |
|-----------------|---|---|
| Within 90 days | 2,537,978 | 3,310,710 |
| 91 to 180 days | 1,483,059 | 1,249,400 |
| 181 to 365 days | 126,822 | 267,785 |
| Over 365 days | 272,611 | 316,963 |
| | 4,420,470 | 5,144,858 |

17. Obligations under finance leases

| | (Unaudited) 30 June 2009 RMB'000 | (Audited) 31 December 2008 RMB'000 |
|--|---|---|
| Within one year | 2,018,328 | 1,916,989 |
| In the second year | 2,116,774 | 2,016,172 |
| In the third to fifth year inclusive | 6,711,864 | 6,203,330 |
| After the fifth year | 9,550,368 | 10,672,408 |
| Total | 20,397,334 | 20,808,899 |
| Less: amount repayable within one year | (2,018,328) | (1,916,989) |
| Long-term portion | 18,379,006 | 18,891,910 |

18. Borrowings

| | (Unaudited) 30 June 2009 RMB'000 | (Audited) 31 December 2008 RMB'000 |
|---------------------------|---|---|
| Long-term bank borrowings | | |
| — Secured | 4,997,694 | 4,483,950 |
| — Unsecured | 11,158,408 | 11,143,593 |
| | 16,156,102 | 15,627,543 |

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| | | |
|----------------------------|-------------|-------------|
| Less: current portion | (6,304,785) | (7,039,491) |
| Non-current portion | 9,851,317 | 8,588,052 |
| Short-term bank borrowings | 16,419,058 | 19,473,829 |

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| 19. | Share capital | |
|--|---------------|-------------|
| | (Unaudited) | (Audited) |
| | 30 June | 31 December |
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Registered, issued and fully paid of RMB1.00 each | | |
| A Shares | | |
| — Listed shares with trading moratorium held by CEA Holding and employees (Note (b)) | 4,341,375 | 2,904,000 |
| — Listed shares without trading moratorium | 396,000 | 396,000 |
| H Shares (Note (b)) | 3,004,325 | 1,566,950 |
| | 7,741,700 | 4,866,950 |

Notes:

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

(b) On 5 June 2009, China Securities Regulatory Commission (the "CSRC") approved the Company's application for non-public issue of 1,437,375,000 A Shares at nominal value of RMB1.00 each. CEA Holding subscribed for all the shares under this issue and undertook that it would not transfer the subscribed A Shares within 36 months from the completion date of the issue. The issue price was RMB3.87 per share and the total proceed of RMB5,562,641,000 (the "Proceeds of A Shares") from the issue was received by the Company in June 2009 and verified by a PRC Certified Public Accountants firm.

On 19 May 2009, CSRC approved the Company's application for additional issue of 1,437,375,000 H Shares at nominal value of RMB1.00 each. CES Global Holding (Hong Kong) Limited ("CES Global"), a wholly owned Hong Kong incorporated subsidiary of CEA Holding, subscribed for all the shares under this issue and undertook that it would not transfer the subscribed H Shares within 36 months from the completion date of the issue. The issue price was HKD1.13 per share and the total proceed of HKD1,630,342,000, equivalent to RMB1,437,375,000 (the "Proceeds of H Shares") from the issue was received by the Company in June 2009 and verified by a PRC Certified Public Accountants firm.

The total amount of the aforementioned Proceeds of A Shares and Proceeds of H Shares were RMB7,00,016,000, after deducting the share issue expenses of RMB14,878,000 for the share issues, the net proceeds raised from the above share issues amounted to RMB6,985,138,000, of which RMB2,874,750,000 is recorded as share capital and the remaining RMB4,110,388,000 is recorded as share premium.

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20. Commitments

(a) Capital commitments

The Group had the following capital commitments:

| | (Unaudited) 30 June 2009 RMB'000 | (Audited) 31 December 2008 RMB'000 |
|--|---|---|
| Authorised and contracted for: | | |
| — Aircraft, engines and flight equipment | 62,127,225 | 52,533,736 |
| — Other property, plant and equipment | 90,681 | 130,180 |
| | 62,217,906 | 52,663,916 |
| Authorised but not contracted for: | | |
| — Other property, plant and equipment | 4,200,991 | 5,235,712 |
| | 66,418,897 | 57,899,628 |

(b) Operating lease commitments

The Group had commitments under operating leases to pay future minimum lease rentals as follows:

| | (Unaudited) 30 June 2009 | | (Audited) 31 December 2008 | |
|---|--|----------------------------------|--|----------------------------------|
| | 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 | 2,430,019 | 255,483 | 2,671,355 | 202,540 |
| In the second year | 1,933,677 | 143,537 | 2,330,080 | 124,643 |
| In the third to fifth year inclusive | 4,100,844 | 337,770 | 4,598,624 | 325,423 |
| After the fifth year | 3,576,329 | 2,462,209 | 4,100,560 | 2,398,361 |
| | 12,040,869 | 3,198,999 | 13,700,619 | 3,050,967 |

21. Related party transactions

The Group is controlled by CEA Holding, which owns approximately 74.64% of the Company's shares as at 30 June 2009 (2008 : 59.67%). The aviation industry in the PRC is administrated by the CAAC. CEA Holding and accordingly

the Group are ultimately controlled by the PRC government, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the “SOEs”).

(a) Related party transactions

The Group sells air tickets through sales agents and is therefore likely to have extensive transactions with other state-controlled enterprises, and the employees and their close family members of SOEs while such employees are on corporate business. These transactions are carried out on normal commercial terms that are consistently applied to all of the Group’s customers. Due to the large volume and the pervasiveness of these transactions, management is unable to determine the aggregate amount of the transactions for disclosure. Therefore, retail transactions with these related parties are not disclosed herein. The Directors of the Company believe that meaningful related party disclosures on these retail transactions have been adequately made.

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During the Current Period, the Group has entered into the following major transactions with the related parties:

| Nature of transactions | Related party | (Unaudited) Six months ended 30 June | |
|---|---|--|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 |
| (i) With CEA Holding or companies directly or indirectly held by CEA Holding: | | | |
| Interest income on deposits at an average rate of 0.36% (2008 : 0.36%) per annum | Eastern Air Group Finance Co., Ltd (“EAGF”)* | 11,282 | 11,965 |
| Interest expense on loans at rate of 4.61% (2008 : 4.87%) per annum | EAGF* | 124,334 | 11,978 |
| Entrusted short-term loan from CEA Holding through EAGF at interest rate of 4.37% per annum and repayable within 6 months | CEA Holding and EAGF* | 5,550,000 | |
| Automobile maintenance fee | CEA Development Co. Ltd | 13,566 | 14,886 |
| Land and building rental | CEA Holding | 27,570 | 27,700 |
| Handling charges of 0.1% to 2% for the purchase of aircraft, flight spare parts, other property, plant and flight equipment | Eastern Aviation Import & Export Co., Ltd (“EAIEC”)* | 21,256 | 20,462 |
| Equipment manufacturing and maintenance | Shanghai Eastern Aviation Equipment Manufacturing Corporation | 4,320 | 4,656 |
| Ticket reservation service charges for utilisation of computer reservation system | Travel Sky Technology Limited*** | 129,433 | 115,581 |

| | | | |
|--|---|---------|--------|
| Repairs and maintenance expense for aircraft and engines | Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd (“Wheels & Brakes”)** | 29,808 | 29,296 |
| | Shanghai Technologies Aerospace Co., Ltd (“STA”)** | 59,808 | 50,664 |
| Supply of food and beverages | Shanghai Eastern Air Catering Co., Ltd (“SEAC”)*** | 115,534 | 77,078 |
| | Qingdao Eastern Air Catering Investment Co., Ltd.*** | 12,287 | 13,104 |
| | Xian Eastern Air Catering Investment Co., Ltd.*** | 18,529 | 18,300 |

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| Nature of transactions | Related party | (Unaudited) Six months ended 30 June | |
|---|---|--|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 |
| | Yunnan Eastern Air Catering Investment Co., Ltd.*** | 8,246 | 20,038 |
| Advertising expense | Eastern Aviation Advertising Services Co., Ltd (“CAASC”)* | 638 | 2,682 |
| Commission expense on air tickets sold on behalf of the Group | Shanghai Dongmei Aviation Travel Co., Ltd (“SDATC”)* | 82 | 5,133 |
| | Shanghai Tourism (HK) Co., Ltd*** | 52 | 2,370 |
| (ii) | With CAAC and its affiliates: | | |
| Civil aviation infrastructure levies paid | CAAC | 426,846 | 373,380 |
| Aircraft insurance premium paid through CAAC which entered into the insurance policy on behalf of the Group | CAAC | 67,569 | 77,311 |
| (iii) | With other state-controlled enterprises: | | |
| Take-off and landing fees charges | State-controlled airports | 1,615,974 | 1,285,297 |
| Purchase of aircraft fuel | State-controlled fuel suppliers | 4,462,944 | 6,353,798 |
| Interest income on deposits at an average rate of 0.36% (2008 : 0.72%) per annum | State-controlled banks | 15,795 | 8,081 |

| | | | |
|--|------------------------------------|---------|---------|
| Interest expense on loans at an average rate of 5.40% (2008 : 5.72%) per annum | State-controlled banks | 706,357 | 827,886 |
| Commission expense on air tickets sold on behalf of the Group | Other PRC airlines | 21,209 | 35,018 |
| Supply of food and beverages | Other state-controlled enterprises | 226,160 | 198,353 |

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| (b) | Balances with related parties | |
|-------------------------|-------------------------------|------------------------------------|
| | (i) | Amounts due from related companies |
| Company | (Unaudited) | (Audited) |
| | 30 June 2009 | 31 December 2008 |
| | RMB'000 | RMB'000 |
| EAIEC* | 189,017 | 181,788 |
| Other related companies | 15,740 | 26,501 |
| | 204,757 | 208,289 |

All the amounts due from related companies are trade in nature, interest free and payable within normal credit terms given to trade customers.

| (ii) | Amounts due to related companies | |
|-------------------------|----------------------------------|---------------------|
| Company | (Unaudited) | (Audited) |
| | 30 June 2009 | 31 December 2008 |
| | RMB'000 | RMB'000 |
| EAIEC* | (365,001) | (241,560) |
| CEA Holding | (84,813) | (69,497) |
| SEAC*** | (6,688) | (46,580) |
| Other related companies | (20,037) | (55,489) |
| | (476,539) | (413,126) |

Except for amount due to CEA Holding, which is reimbursement in nature, all other amounts due to related companies are trade in nature, interest free and payable within normal credit terms given by trade creditors.

(iii) Short-term deposits and short-term loans with EAGF, a 25% associate of the Group

| | (Unaudited) | (Audited) |
|---|-----------------|---------------------|
| | 30 June 2009 | 31 December 2008 |
| | RMB'000 | RMB'000 |
| Included in "Prepayments, Deposits and Other Receivables" are short-term deposits with an average interest rate of 0.4% (2008 : 0.4%) per annum | 707,309 | 1,202,892 |
| | 945,151 | 295,181 |

Included in “Borrowings” are short-term loans with an average interest rate of 4.4% (2008 : 4.3%) per annum

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| (iv) | State-controlled banks and other financial institutions | (Unaudited) | (Audited) |
|------|--|----------------------------|--------------------------------|
| | | 30 June 2009 RMB'000 | 31 December 2008 RMB'000 |
| | Included in "Cash and Cash Equivalents" are bank deposits with an average interest rate of 0.4% (2008: 0.4%) per annum | 2,612,384 | 1,762,245 |
| | Included in "Borrowings" are long-term loans with an average interest rate of 5.0% (2008: 5.3%) per annum | 14,945,495 | 14,577,150 |
| (c) | Guarantees by holding company | | |

Certain unsecured bank borrowings of the Group totaling of RMB457 million (2008 : RMB357 million) were guaranteed by CEA Holding (Note 18). No bank borrowing of the Company was guaranteed by CEA Holding as at 30 June 2009 (2008 : Nil).

Notes:

*EAGF is a 25% associate of the Group. SDATC is a 27.16% associate of the Group, CAASC and EAIEC are both 45% associates of the Group.

** Wheels & Brakes and STA are 40% and 51% jointly controlled entities of the Group respectively.

*** These companies are related companies of the Group as they are either, directly or indirectly, controlled by, under the joint control or significant influence of CEA Holding.

22. 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.

23. Contingent liabilities

In 2005, the family members of certain victims in the aircraft (the aircraft was then owned and operated by China Eastern Air Yunnan Company) accident, which occurred in Baotou on 21 November 2004, sued the Company in a U.S. court for compensation. On 5 July 2007, pursuant to several conditions with which the Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non convenience for the purpose of permitting proceedings in the PRC. On 20 February 2008, the plaintiffs filed a motion with the Superior Court of the State of California to lift the stay, but the motion was rejected by the court on 6 May 2008. The plaintiffs filed a second motion to lift the stay on 10 July 2008. On 27 August 2008, the Superior Court of the State of California rejected the motion of the plaintiffs again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an opinion on 26 February 2009, dismissing the appeal of

the plaintiffs and affirming the original order. On 16 March 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and no official summons from the court has been received by the Company. The management of the Group believes that even if there would be a negative outcome for this case, it will not have an adverse effect on the financial condition and results of operations of the Company.

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24. Post balance sheet events

(a) Specific mandates in relation to issuance of new A Shares and new H Shares

On 10 July 2009, the Board resolved to convene an extraordinary shareholders' meeting and the class meetings of the holders of A Shares of the Company ("A Shares") and H Shares of the Company ("H Shares") respectively on 7 September 2009 for the grant of (i) an A Share Specific Mandate to the Board to issue not more than 1,350,000,000 new A Shares to not more than 10 specific investors (subject to the maximum number as permitted by PRC laws and regulations at the time of the issuance) including CEA Holding, at the subscription price of not less than RMB4.75 per A Share; and (ii) a H Share Specific Mandate to the Board to issue not more than 490,000,000 new H Shares to CES Global, at the subscription price of not less than HK\$1.40 per H Share.

(b) Proposed absorption of Shanghai Airlines through exchange of shares

On 10 July 2009, the Company entered into an agreement with Shanghai Airlines Co., Ltd ("Shanghai Airlines") in relation to a proposed absorption of Shanghai Airlines through share exchanges at the rate of 1.3 A Shares in exchange of 1 share of Shanghai Airlines (i.e. in aggregate a maximum of 1,694,838,860 A Shares in exchange of 1,303,722,200 shares of Shanghai Airlines). A separate extraordinary shareholders' meeting and respective class meetings will be convened to approve the proposed absorption (the "Absorption Proposal").

Upon full implementation of the terms of the Absorption Proposal, after the approvals by the shareholders of the Company and Shanghai Airlines, together with the requisite consents and approvals from the relevant government authorities has been obtained, all the assets, business, staff and rights of Shanghai Airlines, including but not limited to all operating licence, registration and filing and route operating rights, will be absorbed into and all the liabilities of Shanghai Airlines will be assumed by the Company or a wholly owned subsidiary of the Company to be used to absorb all the assets and assume all the liabilities of Shanghai Airlines.

(c) Additional credit facilities

On 31 July 2009, the Company was granted by CEA Holding to use a four year credit facility of RMB30 billion that CEA Holding obtained from China Development Bank.

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C. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

Set out below are the audited consolidated financial statements and notes to the consolidated financial statements of the Group for the year ended 31 December 2008, which are extracted from pages 112 to 264 of the annual report of the Company for the year ended 31 December 2008.

Consolidated Income Statement
(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 (Restated) (Note 2(b)) |
|--|------|-----------------|--|
| Revenues | 5 | 41,072,557 | 42,533,893 |
| Other operating income | 6 | 405,163 | 487,562 |
| Other gains | 6 | 267,084 | — |
| Operating expenses | | | |
| Aircraft fuel | | (18,488,242) | (15,117,147) |
| (Loss)/gain on fair value movements of financial derivatives | 8 | (6,400,992) | 83,965 |
| Take-off and landing charges | | (5,279,590) | (5,174,183) |
| Depreciation and amortisation | | (4,781,562) | (4,719,735) |
| Wages, salaries and benefits | 9 | (4,545,312) | (4,327,397) |
| Aircraft maintenance | | (3,272,981) | (2,392,039) |
| Impairment losses | 10 | (2,976,678) | (227,456) |
| Food and beverages | | (1,321,268) | (1,230,754) |
| Aircraft operating lease rentals | | (2,734,802) | (2,850,873) |
| Other operating lease rentals | | (369,236) | (292,844) |
| Selling and marketing expenses | | (1,562,945) | (1,805,342) |
| Civil aviation infrastructure levies | | (769,849) | (781,613) |
| Ground services and other charges | | (268,873) | (224,466) |
| Office, administrative and other expenses | | (4,055,679) | (3,833,938) |
| Total operating expenses | | (56,828,009) | (42,893,822) |
| Operating (loss)/profit | 11 | (15,083,205) | 127,633 |
| Finance income | 12 | 2,061,625 | 2,140,457 |
| Finance costs | 13 | (2,328,147) | (1,978,550) |
| Share of results of associates | 23 | 69,668 | 58,312 |
| Share of results of jointly controlled entities | 24 | 24,050 | 30,086 |
| (Loss)/profit before income tax | | (15,256,009) | 377,938 |

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| | | | |
|----------------------------|----|--------------|----------|
| Income tax | 14 | (73,916) | (23,763) |
| (Loss)/profit for the year | | (15,329,925) | 354,175 |

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| | Note | 2008 RMB'000 | 2007 RMB'000 (Restated) (Note 2(b)) |
|---|------|-----------------|--|
| Attributable to: | | | |
| Equity holders of the Company | | (15,268,532) | 378,568 |
| Minority interests | | (61,393) | (24,393) |
| | | (15,329,925) | 354,175 |
| (Loss)/earnings per share attributable to the equity holders of the Company during the year | | | |
| — basic and diluted | 17 | RMB (3.14) | RMB 0.08 |

The notes on pages 121 to 264 are an integral part of these financial statements.

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Consolidated Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)

As at 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 (Restated) (Note 2(b)) |
|---|------|-----------------|--|
| Non-current assets | | | |
| Intangible assets | 18 | 164,851 | 1,244,706 |
| Property, plant and equipment | 19 | 52,678,473 | 47,269,754 |
| Lease prepayments | 20 | 996,521 | 967,497 |
| Advanced payments on acquisition of aircraft | 21 | 6,413,554 | 6,695,573 |
| Investments in associates | 23 | 980,319 | 601,119 |
| Investments in jointly controlled entities | 24 | 362,332 | 336,966 |
| Available-for-sale financial assets | | 31,268 | 53,236 |
| Other long-term assets | 25 | 941,556 | 660,751 |
| Deferred tax assets | 35 | 81,947 | 113,211 |
| Derivative assets | 38 | 988 | 6,077 |
| | | 62,651,809 | 57,948,890 |
| Current assets | | | |
| Flight equipment spare parts | | 871,364 | 1,124,936 |
| Trade receivables | 26 | 1,146,522 | 2,096,007 |
| Amounts due from related companies | 44 | 208,289 | 65,455 |
| Prepayments, deposits and other receivables | 27 | 4,126,219 | 2,555,649 |
| Cash and cash equivalents | 28 | 3,451,010 | 1,655,244 |
| Derivative assets | 38 | 123,010 | 89,470 |
| Non-current assets held for sale | 41 | 473,667 | 2,205,450 |
| | | 10,400,081 | 9,792,211 |
| Current liabilities | | | |
| Sales in advance of carriage | | 1,013,878 | 1,211,209 |
| Trade payables and notes payable | 29 | 5,144,858 | 3,137,880 |
| Amounts due to related companies | 44 | 413,126 | 671,593 |
| Other payables and accrued expenses | 30 | 12,147,175 | 9,591,245 |
| Current portion of obligations under finance leases | 31 | 1,916,989 | 2,545,223 |
| Current portion of borrowings | 32 | 26,513,320 | 18,494,521 |
| Income tax payable | | 39,002 | 90,867 |
| Current portion of provision for aircraft overhaul expenses | 33 | 213,830 | — |
| Derivative liabilities | 38 | 6,456,075 | 20,238 |
| Liabilities directly associated with non-current assets held for sale | 41 | — | 127,239 |
| | | 53,858,253 | 35,890,015 |

| | | |
|---------------------------------------|--------------|--------------|
| Net current liabilities | (43,458,172) | (26,097,804) |
| Total assets less current liabilities | 19,193,637 | 31,851,086 |

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| | Note | 2008 RMB'000 | 2007 RMB'000 (Restated) (Note 2(b)) |
|--|-------|---------------------|--|
| Non-current liabilities | | | |
| Obligations under finance leases | 31 | 18,891,910 | 13,906,987 |
| Borrowings | 32 | 8,588,052 | 11,369,307 |
| Provision for aircraft overhaul expenses | 33 | 1,320,188 | 956,910 |
| Other long-term liabilities | 34 | 1,320,759 | 1,242,697 |
| Deferred tax liabilities | 35 | 57,589 | 50,369 |
| Post-retirement benefit obligations | 36(b) | 1,469,124 | 1,370,702 |
| Derivative liabilities | 38 | 185,524 | 21,558 |
| | | 31,833,146 | 28,918,530 |
| Net (liabilities)/assets | | (12,639,509) | 2,932,556 |
| Equity | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| Share capital | 39 | 4,866,950 | 4,866,950 |
| Reserves | 40 | (17,964,351) | (2,506,379) |
| | | (13,097,401) | 2,360,571 |
| Minority interests | | 457,892 | 571,985 |
| Total equity | | (12,639,509) | 2,932,556 |

The notes on pages 121 to 264 are an integral part of these financial statements.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Company's Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)

As at 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 (Restated) (Note 2(b)) |
|---|------|---------------------|--|
| Non-current assets | | | |
| Intangible assets | 18 | 164,579 | 939,674 |
| Property, plant and equipment | 19 | 44,512,840 | 38,580,747 |
| Lease prepayments | 20 | 420,272 | 425,136 |
| Advanced payments on acquisition of aircraft | 21 | 6,413,554 | 6,695,573 |
| Investments in subsidiaries | 22 | 2,523,715 | 2,473,716 |
| Investments in associates | 23 | 762,058 | 377,872 |
| Investments in jointly controlled entities | 24 | 301,802 | 301,802 |
| Available-for-sale financial assets | | 15,520 | 37,487 |
| Other long-term assets | 25 | 765,351 | 498,849 |
| Derivative assets | 38 | 988 | 6,077 |
| | | 55,880,679 | 50,336,933 |
| Current assets | | | |
| Flight equipment spare parts | | 707,587 | 864,204 |
| Trade receivables | 26 | 750,495 | 1,375,156 |
| Amounts due from related companies | 44 | 1,518,341 | 1,618,332 |
| Prepayments, deposits and other receivables | 27 | 3,706,776 | 2,150,609 |
| Cash and cash equivalents | 28 | 2,361,941 | 1,040,897 |
| Derivative assets | 38 | 123,010 | 89,470 |
| Non-current assets held for sale | 41 | 473,667 | 764,120 |
| | | 9,641,817 | 7,902,788 |
| Current liabilities | | | |
| Sales in advance of carriage | | 1,013,878 | 1,211,209 |
| Trade payables and notes payable | 29 | 4,747,230 | 2,662,716 |
| Amounts due to related companies | 44 | 695,803 | 777,422 |
| Other payables and accrued expenses | 30 | 10,486,958 | 8,304,694 |
| Current portion of obligations under finance leases | 31 | 1,715,062 | 2,316,781 |
| Current portion of borrowings | 32 | 24,063,433 | 15,943,774 |
| Current portion of provision for aircraft overhaul expenses | 33 | 139,710 | — |
| Derivative liabilities | 38 | 6,456,075 | 20,238 |
| Liabilities directly associated with non-current assets held for sale | 41 | — | 127,239 |
| | | 49,318,149 | 31,364,073 |
| Net current liabilities | | (39,676,332) | (23,461,285) |

| | | |
|---------------------------------------|------------|------------|
| Total assets less current liabilities | 16,204,347 | 26,875,648 |
|---------------------------------------|------------|------------|

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| | Note | 2008 RMB'000 | 2007 RMB'000 (Restated) (Note 2(b)) |
|---|-------|-----------------|--|
| Non-current liabilities | | | |
| Obligations under finance leases | 31 | 16,814,109 | 11,455,722 |
| Borrowings | 32 | 7,045,080 | 9,650,583 |
| Provision for aircraft overhaul expenses | 33 | 1,028,980 | 737,371 |
| Other long-term liabilities | 34 | 1,235,953 | 1,159,773 |
| Post-retirement benefit obligations | 36(b) | 1,286,878 | 1,195,070 |
| Derivative liabilities | 38 | 185,524 | 21,558 |
| | | 27,596,524 | 24,220,077 |
| Net (liabilities)/assets | | (11,392,177) | 2,655,571 |
| Equity | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| Share capital | 39 | 4,866,950 | 4,866,950 |
| Reserves | 40 | (16,259,127) | (2,211,379) |
| Total equity | | (11,392,177) | 2,655,571 |

The notes on pages 121 to 264 are an integral part of these financial statements.

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Consolidated Cash Flow Statement

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 42(a) | 2,942,466 | 3,142,834 |
| Income tax paid | | (86,931) | (62,549) |
| Net cash inflow from operating activities | | 2,855,535 | 3,080,285 |
| Cash flows from investing activities | | | |
| Additions of property, plant and equipment | | (1,289,350) | (1,592,310) |
| Proceeds from disposal of property, plant and equipment | | 1,856,358 | 70,681 |
| Acquisition of land use rights | | (53,117) | — |
| Advanced payments on acquisition of aircraft | | (3,603,824) | (3,737,079) |
| Refunds of advanced payments upon deliveries of aircraft | | 2,422,252 | 3,064,580 |
| Repayment of other payables (instalment payment for acquisition of an airline business) | | (30,000) | (30,000) |
| Interest received | | 90,635 | 96,849 |
| Dividend received | | 29,679 | 22,367 |
| Capital injections in a jointly controlled entity | | — | (92,416) |
| Capital injections in associates | | (384,186) | — |
| Proceeds from disposal of interest in an associate | | 3,698 | — |
| Proceeds on disposal of available-for-sale financial assets | | 32,972 | — |
| Proceeds from disposal of interest in a subsidiary | | — | 441,002 |
| Net cash outflow from investing activities | | (924,883) | (1,756,326) |
| Cash flows from financing activities | | | |
| Proceeds from draw down of short-term bank loans | | 25,403,301 | 18,464,695 |
| Repayments of short-term bank loans | | (19,986,723) | (16,020,304) |
| Proceeds from draw down of long-term bank loans | | 4,748,071 | 3,383,349 |
| Repayments of long-term bank loans | | (3,922,593) | (2,985,480) |
| Principal repayments of finance lease obligations | | (2,593,656) | (2,974,718) |
| Payments of restricted bank deposit | | (1,365,116) | — |
| Interest paid | | (2,741,980) | (2,240,721) |
| Refunds of deposits pledged for finance leases upon maturities | | 419,604 | 779,646 |
| Dividends paid to minority shareholders of subsidiaries | | (52,700) | (46,400) |
| Net cash outflow from financing activities | | (91,792) | (1,639,933) |
| Net increase/(decrease) in cash and cash equivalents | | 1,838,860 | (315,974) |
| Cash and cash equivalents at 1 January | | 1,655,244 | 1,987,486 |
| Exchange adjustments | | (43,094) | (16,268) |
| Cash and cash equivalents at 31 December | | 3,451,010 | 1,655,244 |

The notes on pages 121 to 264 are an integral part of these financial statements.

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Consolidated Statement of Changes in Equity
(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2008

| | Attributable to equity holders of the Company | | | Subtotal RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|--|---|------------------------------|----------------------------------|---------------------|----------------------------------|----------------------------|
| | Share capital RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | | | |
| Balance at 1 January 2007 as previously presented | 4,866,950 | 1,282,877 | (3,334,930) | 2,814,897 | 661,746 | 3,476,643 |
| Effect of early adoption of IFRIC 13 (Note 2(b)(i)) | — | — | (362,606) | (362,606) | — | (362,606) |
| Effect of change of accounting policy on property, plant and equipment (Note 2(b)(ii)) | — | (490,688) | 76,430 | (414,258) | (12,981) | (427,239) |
| Balance at 1 January 2007 as restated | 4,866,950 | 792,189 | (3,621,106) | 2,038,033 | 648,765 | 2,686,798 |
| Cash flow hedges, net of tax | — | (78,197) | — | (78,197) | — | (78,197) |
| Fair value movements of available for sale investments held by associates (Note 23) | — | 22,167 | — | 22,167 | — | 22,167 |
| Net income recognised directly in equity | — | (56,030) | — | (56,030) | — | (56,030) |
| Profit/(loss) for the year | — | — | 378,568 | 378,568 | (24,393) | 354,175 |
| Total recognised income and expense for 2007 | — | (56,030) | 378,568 | 322,538 | (24,393) | 298,145 |
| Dividend paid to minority interests in subsidiaries | — | — | — | — | (46,400) | (46,400) |

| | | | | | | |
|--|-----------|-----------|--------------|--------------|----------|--------------|
| Disposal of a subsidiary | — | — | — | — | (5,987) | (5,987) |
| Adjustment to statutory and discretionary reserves | — | (428,808) | 428,808 | — | — | — |
| | — | (428,808) | 428,808 | — | (52,387) | (52,387) |
| Balance at 31 December 2007 | 4,866,950 | 307,351 | (2,813,730) | 2,360,571 | 571,985 | 2,932,556 |
| Balance at 1 January 2008, as previously presented | 4,866,950 | 798,039 | (2,637,226) | 3,027,763 | 584,966 | 3,612,729 |
| Effect of early adoption of IFRIC 13 (Note 2(b)(i)) | — | — | (345,115) | (345,115) | — | (345,115) |
| Effect of change of accounting policy on property, plant and equipment (Note 2(b)(ii)) | — | (490,688) | 168,611 | (322,077) | (12,981) | (335,058) |
| Balance at 1 January 2008, as restated | 4,866,950 | 307,351 | (2,813,730) | 2,360,571 | 571,985 | 2,932,556 |
| Cash flow hedges, net of tax | — | (170,360) | — | (170,360) | — | (170,360) |
| Fair value movements of available for sale investments held by associates (Note 23) | — | (19,080) | — | (19,080) | — | (19,080) |
| Net loss recognised directly in equity | — | (189,440) | — | (189,440) | — | (189,440) |
| Loss for the year | — | — | (15,268,532) | (15,268,532) | (61,393) | (15,329,925) |
| Total recognised income and expense for 2008 | — | (189,440) | (15,268,532) | (15,457,972) | (61,393) | (15,519,365) |
| Dividend paid to minority interests in subsidiaries | — | — | — | — | (52,700) | (52,700) |
| | — | — | — | — | (52,700) | (52,700) |
| | 4,866,950 | 117,911 | (18,082,262) | (13,097,401) | 457,892 | (12,639,509) |

Balance at 31
December 2008

The notes on pages 121 to 264 are an integral part of these financial statements.

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APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2008

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 its registered office is 66 Airport Street, Pudong International Airport, Shanghai, the PRC. The Company and its subsidiaries (together, the “Group”) are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, and mail delivery and other extended transportation services.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 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, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

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

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

Against this background, the directors have taken active steps to seek additional sources of finance and improve the Group's liquidity position. At 31 December 2008, the Group had total credit facilities of RMB13.5 billion from certain banks. Since 31 December 2008, the Company has successfully obtained additional credit facilities in an aggregate amount of RMB36 billion from certain banks and financial institutions (see Note 47 — "Post balance sheet events" for details). The directors believe that, based on experience to date, it is likely that these facilities will be rolled over in future years if required. In addition, a resolution to issue additional shares to China Eastern Air Holding Company ("CEA Holding"), the Company's shareholder, and CES Global Holding (Hong Kong) Limited ("CES Global"), a wholly-owned subsidiary of CEA Holding, for a total amount of RMB7 billion was approved in the extraordinary general meetings held on 26 February 2009 (see Note 47 — "Post balance sheet events" for details).

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

(i) Standards, amendment and interpretations effective in 2008

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

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

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

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

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

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

IAS 27 (Revised) “Consolidated and Separate Financial Statements” (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply IAS 27 (Revised) from 1 January 2010.

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

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

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

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

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

January 2009.

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(b) Changes of accounting policy

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

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

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

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

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

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

.the alignment of the Group's accounting policy with industry peers — management considers that the historical cost model will improve comparability of certain financial performance data and results of operations of the Group with other airlines. Very few of the leading global airlines currently use the valuation model and valuation data is not generally used in airline industry analysis that is made available to stakeholders or internally by management.

.increased comparability between finance and operating leased aircraft — depreciation cost of a finance leased aircraft is based on revalued amount whereas operating lease payments are based on cost and aircraft held under operating leases are not recognised as assets subject to valuation. Management therefore consider that the change to the cost model increases the level of consistency in accounting for aircraft which are not distinguished from an operational perspective.

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

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

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

| (iii) | Impact on prior year balances | | | |
|--|---|---|---|--------------------------------|
| | 2007 as previously presented RMB'000 | Effect of adoption of IFRIC 13 RMB'000 | Effect of change of accounting policy for PP&E RMB'000 | 2007 as restated RMB'000 |
| Impact on consolidated income statements | | | | |
| Consolidated profit for the year | 244,503 | 17,491 | 92,181 | 354,175 |
| Earnings per share attributable to equity holders of the Company | RMB 0.06 | RMB 0.003 | RMB 0.02 | RMB 0.08 |
| Impact on consolidated balance sheet | | | | |
| Consolidated net assets | 3,612,729 | (345,115) | (335,058) | 2,932,556 |
| Capital and reserves attributable to the equity holders of the Company | 3,027,763 | (345,115) | (322,077) | 2,360,571 |
| Minority interests | 584,966 | — | (12,981) | 571,985 |

(c)

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.

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

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

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

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

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

(ii) Transactions with minority interests

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

(iii) Associates

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves 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.

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.

(iv) 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.

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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. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(d) Segmental reporting

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

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(f) Revenue recognition and sales in advance of carriage

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

The Group 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.

(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)

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.

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(iii)

Other revenue

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

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

(g)

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.

(h)

Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has the responsibility to fulfill certain return conditions under the leases. 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(m)).

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

(i)

Interest income

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

(j)

Borrowing costs

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

(k)

Current and deferred tax

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

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

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.

- | | |
|-----|-------------------|
| (l) | Intangible assets |
| (i) | Goodwill |

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisition of associates and jointly controlled entities is included in "investments in associates" and "investments in jointly controlled entities" and is tested for impairment as part of the overall balances. Separately 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 that are expected to benefit from the business combination in which the goodwill arose.

- | | |
|------|------------------|
| (ii) | Sponsorship fees |
|------|------------------|

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

- | | |
|-------|-------------------------|
| (iii) | Computer software costs |
|-------|-------------------------|

Acquired computer software licenses are 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 to 6 years. Costs associated with developing or maintaining computer software programmes are recognised as expense when incurred.

(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. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognised and charged to the income statement.

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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:

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

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

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

Construction in progress represents buildings under construction and plant and equipment, being mainly flight simulators, pending installation. This includes the costs of construction or acquisition and interest 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) 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.

(p) Advanced payments on acquisition of aircraft

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

(q) Flight equipment spare parts

Flight equipment spare parts are stated at the lower of cost and net 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.

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(r) 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.

(s) Cash and cash equivalents

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

(t) 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.

(u) 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.

(v) Leases

(i) A Group company is the lessee

Finance leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has acquired substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are 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 so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets are depreciated using a straight-line basis over their expected useful lives to residual values.

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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.

(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.

(w) 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 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) 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.

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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 cashflows 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.

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.

(y)

Available-for-sale financial assets

Investments in securities other than subsidiaries, associates and jointly controlled entities, being held for non-trading purposes, are classified as available-for-sale financial assets and are 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 equity, 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.

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(z) 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.

(aa) Comparatives

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

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 certain risk exposures.

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

(i) Foreign currency risk

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

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

The Group also has exposure to foreign currency risk in respect of net cash inflow denominated in Japanese Yen from ticket sales in overseas branch office after payment of expenses. The Group entered into certain foreign exchange forward option contracts to manage this foreign currency risk. Details of foreign currency forward contracts are disclosed in Note 38(b) to the financial statements.

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The following table details the Group's and the Company's exposure at the balance sheet date to major currency risk.

| | Group | | | | | |
|--|----------------|-----------------|----------------|----------------|-----------------|----------------|
| | 2008 | | | 2007 | | |
| | USD RMB'000 | Euro RMB'000 | JPY RMB'000 | USD RMB'000 | Euro RMB'000 | JPY RMB'000 |
| Trade and other receivables | 981,740 | 42,706 | 56,003 | 1,019,596 | 54,185 | 420,927 |
| Cash and cash equivalents | 494,249 | 126,695 | 37,657 | 736,951 | 92,205 | 70,996 |
| Trade and other payables | (417,910) | (1,476) | (363) | (317,867) | (6,017) | (16) |
| Obligations under finance leases | (19,444,259) | — | (83,971) | (15,417,522) | — | (1,034,688) |
| Borrowings | (13,007,687) | (111,658) | — | (17,196,836) | (130,145) | — |
| Currency derivatives at notional value | 825,170 | — | — | 241,052 | — | — |
| Net balance sheet exposure | (30,568,697) | 56,267 | 9,326 | (30,934,626) | 10,228 | (542,781) |

| | Company | | | | | |
|--|----------------|-----------------|----------------|----------------|-----------------|----------------|
| | 2008 | | | 2007 | | |
| | USD RMB'000 | Euro RMB'000 | JPY RMB'000 | USD RMB'000 | Euro RMB'000 | JPY RMB'000 |
| Trade and other receivables | 898,975 | 24,620 | 55,929 | 876,175 | 2,366 | 419,604 |
| Cash and cash equivalents | 441,671 | 95,622 | 22,705 | 460,383 | 60,122 | 57,480 |
| Trade and other payables | (414,591) | (1,021) | (363) | (315,576) | (5,833) | (16) |
| Obligations under finance leases | (17,164,531) | — | (83,971) | (12,737,815) | — | (1,034,688) |
| Borrowings | (12,734,767) | (111,658) | — | (16,874,186) | (130,145) | — |
| Currency derivatives at notional value | 825,170 | — | — | 241,052 | — | — |

| | | | | | | |
|----------------------------|--------------|-------|---------|--------------|----------|-----------|
| Net balance sheet exposure | (28,148,073) | 7,563 | (5,700) | (28,349,967) | (73,490) | (557,620) |
|----------------------------|--------------|-------|---------|--------------|----------|-----------|

The following table indicates the approximate change in the Group's and the Company's profit and loss and other components of consolidated equity in response to a 5% appreciation of the RMB against the following major currencies at the balance sheet date.

| | Group | | | |
|--------------|-----------|------------|-----------|------------|
| | 2008 | Effect | 2007 | Effect |
| | Effect | on other | Effect | on other |
| | on profit | components | on profit | components |
| | and loss | of equity | and loss | of equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| US dollars | 1,495,352 | 34,364 | 1,555,851 | 1,228 |
| Euro | (2,813) | — | (511) | — |
| Japanese Yen | (466) | — | 27,139 | — |

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Fixed rate instruments | | | | |
| Cash and cash equivalents | 3,451,010 | 1,655,244 | 2,361,941 | 1,040,897 |
| Borrowings | (22,929,528) | (20,128,966) | (19,209,590) | (16,116,832) |
| Obligation under finance leases | (326,284) | (1,881,691) | (316,127) | (1,780,598) |
| Interest rate swaps at notional amount | 1,053,352 | 1,217,691 | 1,053,352 | 1,217,691 |
| | (18,751,450) | (19,137,722) | (16,110,424) | (15,638,842) |

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The following table indicates the approximate change in the Group's and the Company's profit and loss and other components of equity if interest rate had been 0.25% higher with all other variables held constant.

| | Effect on profit and loss RMB'000 | 2008 Effect on other components of equity RMB'000 | Effect on profit and loss RMB'000 | 2007 Effect on other components of equity RMB'000 |
|---------------------------|--|--|--|--|
| Floating rate instruments | (77,592) | 10,299 | (57,681) | 27,872 |

(iii)

Fuel price risk

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense for the Group. Aircraft fuel accounts for 33% of the Group's operating expenses (2007 : 35%). The Group has entered into certain financial derivatives to hedge against fuel price risk. Details of fuel option contracts are disclosed in Note 38(c) to the financial statements.

For the year 2008, if fuel price had been 5% higher/lower with all other variables held constant (excluding the impact of fuel option contracts), the Group's fuel cost would have been RMB900 million higher/lower.

For the years ended, if fuel price had been 5% higher/lower with all other variables held constant, the impact on financial derivatives is shown below.

| | Effect on profit and loss RMB'000 | 2008 Effect on other components of equity RMB'000 | Effect on profit and loss RMB'000 | 2007 Effect on other components of equity RMB'000 |
|----------------------------|--|--|--|--|
| Net increase in fuel price | 497,879 | — | 8,766 | — |
| Net decrease in fuel price | (500,690) | — | (17,531) | — |

(iv)

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to sales agents. The Group has a credit policy in place to monitor the exposures to these credit risks on an on-going basis.

The Group has policies in place to ensure that sales of blank tickets are only made available to sales agents with an appropriate credit history. A major portion of sales are conducted through sales agents and the majority of these agents are connected to various settlement plans and/or clearing systems which impose requirements on the credit standing.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlements Plan ("BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB515 million as at 31 December 2008 (2007 : RMB896 million).

Except for the above, the Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

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Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 26.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other banks, which are highly rated by an international credit rating company. The Group also deposits cash and cash equivalents in an associate financial institution owned by its holding company (Note 44(b)(iii)). The management does not expect any loss to arise from non-performance by these banks and the financial institution.

Transactions in relation to derivative financial instruments are only carried out with financial institutions of high reputation. The Group has policies that limit the amount of credit exposure to any one financial institution. Management does not expect any losses from non-performance by these banks.

(v)

Liquidity risk

The Group's primary cash requirements have been for additions of and upgrades to aircraft, engines and flight equipment and payments on related borrowings. The Group finances its working capital requirements through a combination of funds generated from operations and both short and long term bank loans. The Group generally finances the acquisition of aircraft through long-term finance leases and bank loans.

The Group operates with a working capital deficit. As at 31 December 2008, the Group's net current liabilities amounted to RMB43,458 million (2007 : RMB26,098 million). For the year ended 31 December 2008, the Group recorded a net cash inflow from operating activities of RMB2,856 million (2007 : inflow RMB3,080 million), a net cash outflow from investing activities and financing activities of RMB1,017 million (2007 : outflow RMB3,396 million), and an increase in cash and cash equivalents of RMB1,796 million (2007 : decrease RMB332 million).

The Directors of Company believe that cash from operations and short and long term bank borrowings will be sufficient to meet the Group's operating cashflow. Due to the dynamic nature of the underlying businesses, the Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Directors of the Company believe that the Group has obtained sufficient general credit facilities from PRC banks for financing future capital commitments and for working capital purposes (see Notes 2(a) and 47).

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Management monitors rolling forecasts of the Group's liquidity reserves on the basis of expected cash flows:

The table below analysis 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.

| | Group | | | |
|-------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|----------------------------|
| | 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 31 December 2008 | | | | |
| Borrowings | 27,785,310 | 4,515,962 | 3,969,413 | 846,074 |
| Derivative financial instruments | 6,456,075 | 15,448 | 19,416 | 150,660 |
| Obligations under finance leases | 2,765,969 | 2,704,499 | 7,805,669 | 11,868,053 |
| Trade and other payables | 16,561,603 | — | 320,354 | 410,076 |
| Total | 53,568,957 | 7,235,909 | 12,114,852 | 13,274,863 |
| At 31 December 2007 | | | | |
| Borrowings | 18,494,521 | 5,927,098 | 4,216,517 | 1,225,692 |
| Derivative financial instruments | 20,238 | 441 | 5,120 | 15,997 |
| Obligations under finance leases | 2,545,223 | 1,567,253 | 4,205,352 | 8,134,382 |
| Trade and other payables | 12,075,177 | — | 339,064 | 314,884 |
| Total | 33,135,159 | 7,494,792 | 8,766,053 | 9,690,955 |

| | Company | | | |
|-------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|----------------------------|
| | 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 31 December 2008 | | | | |
| Borrowings | 25,146,504 | 3,849,229 | 3,156,324 | 530,386 |
| Derivative financial instruments | 6,456,075 | 15,448 | 19,416 | 150,660 |
| Obligations under finance leases | 2,458,559 | 2,400,584 | 6,892,822 | 10,534,868 |
| Trade and other payables | 14,594,713 | — | 229,399 | 410,076 |
| Total | 48,655,851 | 6,265,261 | 10,297,961 | 11,625,990 |

| At 31 December 2007 | | | | |
|----------------------------------|-------------------|------------------|------------------|------------------|
| Borrowings | 15,943,774 | 5,515,186 | 3,266,554 | 868,843 |
| Derivative financial instruments | 20,238 | 441 | 5,120 | 15,997 |
| Obligations under finance leases | 2,316,781 | 1,342,166 | 3,494,960 | 6,618,596 |
| Trade and other payables | 10,384,462 | — | 268,064 | 314,884 |
| Total | 28,665,255 | 6,857,793 | 7,034,698 | 7,818,320 |

(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.

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In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2008 and 2007 were as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|---------------------------------|-----------------|-----------------|
| Total borrowings | 35,101,372 | 29,863,828 |
| Less: Cash and cash equivalents | (3,451,010) | (1,655,244) |
| Net debt | 31,650,362 | 28,208,584 |
| Total equity | (12,639,509) | 2,932,556 |
| Total capital | 19,010,853 | 31,141,140 |
| Gearing ratio | 1.66 | 0.91 |

(c) Fair value estimation of financial assets and liabilities

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the quoted market price used for financial liabilities is the current asking price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of fuel option contracts is determined by reference to mark-to-market values provided by counterparties and independent third parties applying appropriate option valuation models.

The fair values of other long-term receivables are based on cash flows discounted using a rate based on the borrowing rate. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments (Notes 31 and 32).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of property, plant and equipment and intangible assets

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2(n) to the financial statements. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management and the key assumption which are disclosed in Note 18(a).

(b) Revenue recognition

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

These adjustments result from differences between the estimates of certain revenue transactions and the timing of 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.

(c) Frequent flyer programme

The Company operates a frequent flyer programme called “Eastern Miles” that provides travel awards to programme members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and 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. Any remaining unutilised benefits are recognised as deferred revenue.

(d) Depreciation of components related to overhaul costs

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

(e) Provision for costs of return condition checks for aircraft and engines under operating leases

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

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(f)

Retirement benefits

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and 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(w) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is disclosed in Note 36 to the financial statements.

(g)

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(k) to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to 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.

5.

REVENUES

The Group is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

| | Group | |
|---------------------------|------------|-------------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Revenues | | |
| Traffic revenues | | |
| — Passenger | 34,221,555 | 36,077,309 |
| — Cargo and mail | 5,465,784 | 5,633,117 |
| Ground service income | 1,279,444 | 1,001,809 |
| Cargo handling income | 345,048 | 364,638 |
| Commission income | 187,073 | 156,713 |
| Others | 464,717 | 393,166 |
| | 41,963,621 | 43,626,752 |
| Less: Business tax (Note) | (891,064) | (1,092,859) |
| | 41,072,557 | 42,533,893 |

Note:

Except for traffic revenues derived from inbound international and regional flights, which are not subject to the People's Republic of China ("PRC") business tax, the Group's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to PRC business tax levied at rates ranging from 3% to 5%, pursuant to PRC business tax rules and regulations.

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6. OTHER OPERATING INCOME AND OTHER GAINS

| | Group 2008 RMB'000 | 2007 RMB'000 |
|---|--------------------------|-----------------|
| Other operating income | | |
| — Government subsidies (Note (a)) | 405,163 | 487,562 |
| Other gains | | |
| — Gains on disposal of property, plant and equipment (Note (b)) | 267,084 | — |

Note:

(a) The government subsidies represent (i) subsidies granted by the Central Government and local government to the Group; and (ii) other subsidies granted by various local municipalities to encourage the Group to operate certain routes to cities where these municipalities are located.

(b) The gains on disposal of property, plant and equipment represent (i) the gain arising from the sales of certain cargo freighters and engines which were leased back under operating lease and (ii) the disposal of certain aircraft recorded in “non-current assets held for sale” in 2007.

7. SEGMENT INFORMATION

In accordance with the Group’s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

(a) Primary reporting format by business segment

The Group has two business segments, namely passenger and cargo and logistics, which are structured and managed separately, according to the nature of their operations and the services they provide.

(1) Passenger business segment includes cargo carried by passenger flights.

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

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The segment results for the year ended 31 December 2008 are as follows:

| | Passenger RMB'000 | Cargo and logistics RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|----------------------|-----------------------------------|------------------------|------------------|
| Traffic revenues | 35,527,984 | 3,316,285 | — | 38,844,269 |
| Other revenues and operating income | 1,476,812 | 1,092,067 | 257,033 | 2,825,912 |
| Total segment revenue | 37,004,796 | 4,408,352 | 257,033 | 41,670,181 |
| Inter-segment revenue | (426,411) | — | (171,213) | (597,624) |
| Revenues | 36,578,385 | 4,408,352 | 85,820 | 41,072,557 |
| Operating (loss)/profit — segment results | (15,148,592) | (4,392) | 69,779 | (15,083,205) |
| Finance income | 1,960,490 | 100,781 | 354 | 2,061,625 |
| Finance costs | (2,156,695) | (146,944) | (24,508) | (2,328,147) |
| Share of results of associates | — | — | 69,668 | 69,668 |
| Share of results of jointly controlled entities | — | — | 24,050 | 24,050 |
| (Loss)/profit before income tax | (15,344,797) | (50,555) | 139,343 | (15,256,009) |
| Income tax | 10,217 | (73,952) | (10,181) | (73,916) |
| (Loss)/profit for the year | (15,334,580) | (124,507) | 129,162 | (15,329,925) |

Other segment items included in the consolidated income statement for the year ended 31 December 2008 are as follows:

| | Passenger RMB'000 | Cargo and logistics RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|-------------------|----------------------|-----------------------------------|------------------------|------------------|
| Depreciation | 4,052,309 | 427,620 | 60,600 | 4,540,529 |
| Amortisation | 229,350 | 11,097 | 586 | 241,033 |
| Impairment losses | 2,833,565 | 143,113 | — | 2,976,678 |

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

| | Passenger RMB'000 | Cargo and logistics RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---------------------------|----------------------|-----------------------------------|------------------------|------------------|
| Segment assets | 66,377,081 | 4,160,865 | 1,171,293 | 71,709,239 |
| Investments in associates | — | — | 980,319 | 980,319 |

| | | | | |
|---|--------------|-------------|-----------|--------------|
| Investments in jointly controlled entities | — | — | 362,332 | 362,332 |
| Total assets | 66,377,081 | 4,160,865 | 2,513,944 | 73,051,890 |
| Segment liabilities | (81,763,440) | (3,415,065) | (512,894) | (85,691,399) |
| Capital expenditure (Notes 18, 19, 20 and 21) | 11,332,697 | 177,589 | 20,513 | 11,530,799 |

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The segment results for the year ended 31 December 2007 are as follows:

| | Passenger RMB'000 | Cargo and logistics RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|----------------------|-----------------------------------|------------------------|------------------|
| Traffic revenues | 37,550,127 | 3,113,488 | — | 40,663,615 |
| Other revenues and operating income | 1,208,760 | 900,529 | 208,456 | 2,317,745 |
| Total segment revenue | 38,758,887 | 4,014,017 | 208,456 | 42,981,360 |
| Inter-segment revenue | (348,643) | — | (98,824) | (447,467) |
| Revenues | 38,410,244 | 4,014,017 | 109,632 | 42,533,893 |
| Operating (loss)/profit — segment results | (93,051) | 181,823 | 38,861 | 127,633 |
| Finance income | 2,055,187 | 84,481 | 789 | 2,140,457 |
| Finance costs | (1,799,454) | (164,685) | (14,411) | (1,978,550) |
| Share of results of associates | — | — | 58,312 | 58,312 |
| Share of results of jointly controlled entities | — | — | 30,086 | 30,086 |
| Profit before income tax | 162,682 | 101,619 | 113,637 | 377,938 |
| Income tax | 38,835 | (58,123) | (4,475) | (23,763) |
| Profit for the year | 201,517 | 43,496 | 109,162 | 354,175 |

Other segment items included in the income statement for the year ended 31 December 2007 are as follows:

| | Passenger RMB'000 | Cargo and logistics RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|-----------------|----------------------|-----------------------------------|------------------------|------------------|
| Depreciation | 3,899,072 | 646,364 | 42,749 | 4,588,185 |
| Amortisation | 119,913 | 11,051 | 586 | 131,550 |
| Impairment loss | 227,456 | — | — | 227,456 |

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

| | Passenger RMB'000 | Cargo and logistics RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|--|----------------------|-----------------------------------|------------------------|------------------|
| Segment assets | 60,390,659 | 5,286,774 | 1,125,583 | 66,803,016 |
| Investments in associates | — | — | 601,119 | 601,119 |
| Investments in jointly controlled entities | — | — | 336,966 | 336,966 |

| | | | | |
|---|--------------|-------------|-----------|--------------|
| Total assets | 60,390,659 | 5,286,774 | 2,063,668 | 67,741,101 |
| Segment liabilities | (60,129,187) | (4,196,729) | (482,629) | (64,808,545) |
| Capital expenditure (Notes 18, 19, 20 and 21) | 11,807,855 | 788,078 | 212,607 | 12,808,540 |

(b) Secondary reporting format by geographical segment

The Group's two business segments operate in four main geographical areas, even though they are managed on a worldwide basis.

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The Group's revenues (net of business tax) by geographical segment are analyzed based on the following criteria:

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

| | Group | |
|---|------------|------------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Domestic (the PRC, excluding Hong Kong) | 24,333,387 | 24,133,540 |
| Hong Kong | 2,474,088 | 2,694,857 |
| Japan | 3,512,222 | 3,643,244 |
| Other countries | 10,752,860 | 12,062,252 |
| Total | 41,072,557 | 42,533,893 |

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Since the Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities to geographical segments and hence segment assets and capital expenditure by geographic segment have not been presented.

8. (LOSS)/GAIN ON FINANCIAL DERIVATIVES

| | Group | |
|--|-------------|---------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| (Loss)/gain arising from fair value movements of financial derivatives | | |
| — Fuel option contracts (Note 38(c)) | (6,255,791) | 96,576 |
| — Interest rate swaps (Note 38(a)) | (49,535) | (8,824) |
| — Forward foreign exchange contracts (Note 38(b)) | (95,666) | (3,787) |
| | (6,400,992) | 83,965 |

9. WAGES, SALARIES AND BENEFITS

| | Group | |
|---------------------------------------|-----------|-----------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Wages, salaries, bonus and allowances | 3,259,465 | 3,198,734 |

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| | | |
|--|-----------|-----------|
| Employee welfare and benefits | 227,206 | 246,626 |
| Defined contribution retirement schemes (Note 36(a)) | 452,879 | 373,253 |
| Post-retirement benefits (Note 37(b)) | 200,603 | 170,670 |
| Staff housing fund (Note 37(a)) | 281,776 | 285,000 |
| Staff housing allowance (Note 37(b)) | 123,383 | 53,114 |
| | 4,545,312 | 4,327,397 |

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(a) Emoluments of directors, supervisors and senior management

Details of the emoluments paid to the Company's Directors, supervisors and senior management are as follows:

| | 2008 | | |
|--|-----------------------------------|------------------|------------------|
| | Salaries and allowance RMB'000 | Bonus RMB'000 | Total RMB'000 |
| Executive Directors | | | |
| Liu Shaoyong* | — | — | — |
| Ma Xulun* | — | — | — |
| Li Fenghua* | — | — | — |
| Luo Chaogeng* | — | — | — |
| Cao Jianxiong* | — | — | — |
| Li Jun* | — | — | — |
| Luo Zhuping | 173 | — | 173 |
| Independent non-executive Directors | | | |
| Hu Honggao | 120 | — | 120 |
| Peter Lok | 117 | — | 117 |
| Wu Baiwang | 120 | — | 120 |
| Zhou Ruijin | 120 | — | 120 |
| Xie Rong | 120 | — | 120 |
| Supervisors | | | |
| Liu Jiangbo* | — | — | — |
| Xu Zhao* | — | — | — |
| Yang Jie | 45 | — | 45 |
| Wang Taoying | 162 | — | 162 |
| Liu Jiashun* | — | — | — |
| Vice executive Directors | | | |
| Zhang Jianzhong | 203 | — | 203 |
| Li Yangmin | 188 | — | 188 |
| Fan Ru | 654 | — | 654 |
| Finance controller | | | |
| Luo Weide | 189 | — | 189 |
| Total | 2,211 | — | 2,211 |

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| | 2007 | | |
|--|-----------------------------------|------------------|------------------|
| | Salaries and allowance RMB'000 | Bonus RMB'000 | Total RMB'000 |
| Executive Directors | | | |
| Li Fenghua* | — | — | — |
| Luo Chaogeng* | — | — | — |
| Cao Jianxiong* | — | — | — |
| Li Jun* | — | — | — |
| Luo Zhuping | 187 | — | 187 |
| Independent non-executive Directors | | | |
| Hu Honggao | 120 | — | 120 |
| Peter Lok | 117 | — | 117 |
| Wu Baiwang | 120 | — | 120 |
| Zhou Ruijin | 120 | — | 120 |
| Xie Rong | 120 | — | 120 |
| Supervisors | | | |
| Liu Jiangbo* | — | — | — |
| Xu Zhao* | — | — | — |
| Yang Jie | 144 | — | 144 |
| Wang Taoying | 169 | — | 169 |
| Liu Jiashun* | — | — | — |
| Vice executive Directors | | | |
| Zhang Jianzhong | 220 | — | 220 |
| Li Yangmin | 202 | — | 202 |
| Fan Ru | 676 | — | 676 |
| Finance controller | | | |
| Luo Weide | 207 | — | 207 |
| Total | 2,402 | — | 2,402 |

*Certain directors 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.

During the year ended 31 December 2008, no Directors and supervisors waived their emoluments (2007 : Nil).

(b) Five highest paid individuals

One of the vice executive Directors, whose emoluments are reflected in the above analysis was among the five highest paid individuals in the Group for 2008. The emoluments payable to the remaining four (2007 : four) highest paid individuals are as follows:

| | Group |
|--|-------|
| | 2008 |
| | 2007 |

| | RMB'000 | RMB'000 |
|---------------------------------------|---------|---------|
| Wages, salaries, bonus and allowances | 2,505 | 2,430 |

The emoluments fell within the following band:

| | Number of individuals | |
|---------------------|-----------------------|------|
| | 2008 | 2007 |
| Below HK\$1,000,000 | 5 | 4 |

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During the year ended 31 December 2008, no emoluments were paid by the Group to the Directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office (2007 : Nil).

10. IMPAIRMENT LOSSES

| | Group | |
|--|-----------|---------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Goodwill impairment (Note (a)) | 993,143 | — |
| Impairment charge on property, plant and equipment (Note (b)) | 1,441,904 | — |
| Impairment charge on non-current assets held for sale (Note (c)) | 235,273 | 130,921 |
| Other impairment charge | 306,358 | 96,535 |
| | 2,976,678 | 227,456 |

Note:

- (a) For the year ended 31 December 2008, the Group recognised an impairment charge of RMB993 million against goodwill which had previously been recognised in connection with the Group's acquisition of Yunnan Airline, Xibei Airline and Wuhan Airline (Note 18).
- (b) In view of the decline in demand on the air transportation market under the current economic environment, the Group performed an impairment test on property, plant and equipment ("PP&E") as at 31 December 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft model and the related equipment which reflects their relatively lower operation efficiency and which management intend to retire in the near future. In determining the recoverable amounts of the related assets, management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values (Note 19).
- (c) After assessing the fair value less costs to sell as at the balance sheet date which was primarily determined by reference to estimated market value, an additional impairment loss of RMB235 million was made against certain aircraft and related flight equipment which have been classified as "non-current assets held for sale" (Note 41).

11. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following items:

| | | Group | |
|--|------|---------|---------|
| | Note | 2008 | 2007 |
| | | RMB'000 | RMB'000 |
| Crediting: | | | |
| Gain on disposals of property, plant and equipment | 6 | 267,084 | — |
| Charging: | | | |
| Amortisation of intangible assets | 18 | 110,151 | 106,703 |

| | | | |
|---|----|-----------|-----------|
| Depreciation of property, plant and equipment | | | |
| — leased | 19 | 1,913,877 | 1,868,481 |
| — owned | 19 | 2,626,652 | 2,719,704 |
| Amortisation of lease prepayments | 20 | 25,940 | 24,847 |
| Consumption of flight equipment spare parts | | 476,282 | 468,888 |
| Provision for impairment of trade and other receivables | | 34,760 | 10,481 |
| Auditors' remuneration | | 18,000 | 18,439 |

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12.FINANCE INCOME

| | Group | |
|---|-----------|-----------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Exchange gains, net (Note) | 1,957,591 | 2,023,032 |
| Interest income | 89,275 | 96,849 |
| Actual settled gains on financial instruments | | |
| — forward foreign exchange contracts | 14,759 | 20,576 |
| | 2,061,625 | 2,140,457 |

Note:

The exchange gain for the year ended 31 December 2008 primarily relates to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases at year-end exchange rates.

13.

FINANCE COSTS

| | Group | |
|---|-----------|-----------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Interest relating to obligations under finance leases | 651,121 | 731,885 |
| Interest on loans from banks and financial institutions | 1,945,212 | 1,629,090 |
| Interest relating to notes payable | 84,050 | 72,779 |
| Interest relating to long-term payables | — | 3,406 |
| Actual settled gains on financial instruments | | |
| — Interest rate swaps (Note 38(a)) | (10,083) | (59,111) |
| | 2,670,300 | 2,378,049 |
| Less: Amounts capitalised into advanced payments on acquisition of aircraft (Note 21) | (342,153) | (399,499) |
| | 2,328,147 | 1,978,550 |

14.INCOME TAX

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

| | Group | |
|------------------------------|---------|---------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Provision for PRC income tax | 35,432 | 72,918 |

| | | |
|-----------------------------|--------|----------|
| Deferred taxation (Note 35) | 38,484 | (49,155) |
| | 73,916 | 23,763 |

Prior to 2008, the Company and certain of its subsidiaries (the ‘‘Pudong Subsidiaries’’) located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong, Shanghai. Under the Corporate Income Tax Law of the People’s Republic of China (the ‘‘New CIT Law’’) which was approved by the National People’s Congress on 16 March 2007 and became effective from 1 January 2008, the Company and the Pudong Subsidiaries are entitled to enjoy a transitional period to gradually increase the applicable corporate income tax rate to 25% in coming five years. For the year ended 31 December 2008, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries is 18%. Other subsidiaries of the Company, except for those incorporated in Hong Kong and being subject to the Hong Kong corporate income tax rate of 16.5%, are generally subject to the PRC standard corporate tax rate of 25% under the New CIT Law.

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Tax on the Group's consolidated income statement differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

| | Group | |
|--|---------------|---------------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| (Loss)/ profit before income tax | (15,256,009) | 377,938 |
| Adjusted by: | | |
| Share of result of associates and jointly controlled entities | (93,718) | (88,398) |
| | (15,349,727) | 289,540 |
| Tax calculated at enacted tax rate of 18% (2007 : 15%) | (2,762,951) | 43,431 |
| Effect attributable to subsidiaries charged at tax rates of 16.5% or 25% (2007 : 17.5% or 33%) | (67,505) | (49,578) |
| Expenses not deductible for tax purposes | 6,462 | 12,031 |
| Effect of tax rate change on deferred tax | — | 24,289 |
| Utilisation of previously unrecognised tax losses | — | (157,531) |
| Written off of deferred tax asset recognised by a subsidiary in prior year | 34,773 | — |
| Unrecognised tax losses for the year | 1,093,350 | 54,647 |
| Unrecognised temporary differences for the year | 1,769,787 | 96,474 |
| Tax charge | 73,916 | 23,763 |

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended 31 December 2008, as there are double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

15.

DIVIDEND

No dividend was paid during both 2008 and 2007.

The Board of Directors of the Company has not recommended any dividend in respect of the year ended 31 December 2008.

16.

(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB13,877 million (2007 : profit of RMB505 million).

17.

(LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of RMB15,269 million (2007 : a profit of RMB379 million) and the weighted average number of shares of

4,866,950,000 (2007 : 4,866,950,000) in issue during the year.

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

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18. INTANGIBLE ASSETS

| | Goodwill (Note (a)) RMB'000 | Sponsorship fee (Note (b)) RMB'000 | Group Computer software RMB'000 | Total RMB'000 |
|---------------------------------|-----------------------------------|--|--|------------------|
| Cost | | | | |
| At 1 January 2007 | 993,143 | 320,000 | 118,573 | 1,431,716 |
| Other additions | — | — | 15,283 | 15,283 |
| Disposals | — | — | (1,715) | (1,715) |
| At 31 December 2007 | 993,143 | 320,000 | 132,141 | 1,445,284 |
| At 1 January 2008 | 993,143 | 320,000 | 132,141 | 1,445,284 |
| Other additions | — | — | 23,439 | 23,439 |
| At 31 December 2008 | 993,143 | 320,000 | 155,580 | 1,468,723 |
| Accumulated amortisation | | | | |
| At 1 January 2007 | — | 52,870 | 41,292 | 94,162 |
| Charge for the year | — | 82,194 | 24,509 | 106,703 |
| Disposals | — | — | (287) | (287) |
| At 31 December 2007 | — | 135,064 | 65,514 | 200,578 |
| At 1 January 2008 | — | 135,064 | 65,514 | 200,578 |
| Charge for the year | — | 82,194 | 27,957 | 110,151 |
| At 31 December 2008 | — | 217,258 | 93,471 | 310,729 |
| Impairment | | | | |
| At 1 January 2008 | — | — | — | — |
| Charge for the year | 993,143 | — | — | 993,143 |
| At 31 December 2008 | 993,143 | — | — | 993,143 |
| Net book amount | | | | |
| At 31 December 2007 | 993,143 | 184,936 | 66,627 | 1,244,706 |
| At 31 December 2008 | — | 102,742 | 62,109 | 164,851 |

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| | Goodwill (Note (a)) RMB'000 | Company Sponsorship fee (Note (b)) RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---------------------------------|-----------------------------------|---|---------------------------------|------------------|
| Cost | | | | |
| At 1 January 2007 | 688,311 | 320,000 | 117,389 | 1,125,700 |
| Other additions | — | — | 15,071 | 15,071 |
| Disposals | — | — | (1,715) | (1,715) |
| At 31 December 2007 | 688,311 | 320,000 | 130,745 | 1,139,056 |
| At 1 January 2008 | 688,311 | 320,000 | 130,745 | 1,139,056 |
| Other additions | — | — | 23,321 | 23,321 |
| At 31 December 2008 | 688,311 | 320,000 | 154,066 | 1,162,377 |
| Accumulated amortisation | | | | |
| At 1 January 2007 | — | 52,870 | 40,151 | 93,021 |
| Charge for the year | — | 82,194 | 24,454 | 106,648 |
| Disposals | — | — | (287) | (287) |
| At 31 December 2007 | — | 135,064 | 64,318 | 199,382 |
| At 1 January 2008 | — | 135,064 | 64,318 | 199,382 |
| Charge for the year | — | 82,194 | 27,911 | 110,105 |
| At 31 December 2008 | — | 217,258 | 92,229 | 309,487 |
| Impairment | | | | |
| At 1 January 2008 | — | — | — | — |
| Charge for the year | 688,311 | — | — | 688,311 |
| At 31 December 2008 | 688,311 | — | — | 688,311 |
| Net book amount | | | | |
| At 31 December 2007 | 688,311 | 184,936 | 66,427 | 939,674 |
| At 31 December 2008 | — | 102,742 | 61,837 | 164,579 |

Notes:

(a)

Impairment tests for goodwill

The Group operates in two cash-generating units (“CGU”) which are passenger (including cargo carried by passenger flights) and cargo and logistics.

For the year ended 31 December 2008, the Group and the Company recognised impairment charge of RMB993 million and RMB688 million respectively, against goodwill which had previously been recognised in connection with the acquisition of Yunnan Airline, Xibei Airline and Wuhan Airline within the passenger CGU. The impairment charge recognised represents the amount by which the CGU's carrying amount exceeds its recoverable amount.

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The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

Key assumptions used for cash flow projections are as following:

| | |
|--|-------------|
| — Passenger yield growth rate | 0% to 4.5% |
| — Passenger load factor | 63% to 80% |
| — Aircraft daily utilization (hours per day) | 5.4 to 11.4 |
| — Discount rate | 10% |

Management determined budgeted passenger yield increase rate, load factor and aircraft daily utilization based on past performance and its expectations for market development. The discount rate used is pre-tax and reflects specific risks relating to the Group's business.

(b)

Sponsorship fees

In March 2006, the Company entered into an agreement (the "Sponsorship Agreement") with the Bureau of 2010 Expo Shanghai (the "Bureau") which designated the Group as the exclusive airline passenger carrier in the PRC to sponsor the 2010 Shanghai Expo. The Company will be entitled to a number of rights, including but not limited to the use of the Expo logo in the Group's products, priority to purchase advertising space at the Expo site etc. In return, the Company is required to pay a total sponsorship fee of RMB320 million, RMB160 million of which would be paid in cash by instalments, the remaining RMB160 million would be settled by value-in-kind services ("VIK") (in the form of goods or services) to support the 2010 Shanghai Expo. Accordingly, an intangible asset has been recognised and amortised on straight-line basis over the period from the effective date of the Sponsorship Agreement to the completion of the Expo. The outstanding sponsorship fee of RMB178 million (2007 : 233 million) has been recognised as other long-term liabilities (Note 34) in the Group's balance sheet.

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19. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | | Total RMB'000 |
|---|---|--|----------------------|---|--|-------------|------------------|
| | Aircraft, engines and flight equipment | | Buildings RMB'000 | Other property, plant and equipment RMB'000 | Construction in progress RMB'000 | | |
| | Owned RMB'000 | Held under finance leases RMB'000 | | | | | |
| Cost | | | | | | | |
| At 1 January 2008, as restated | 32,928,494 | 27,815,704 | 2,825,748 | 3,883,784 | 480,791 | 67,934,521 | |
| Reclassification upon a purchase | 3,094,561 | (3,094,561) | — | — | — | — | |
| Sales and finance lease back | (3,085,419) | 3,085,419 | — | — | — | — | |
| Transfers from construction in progress | — | — | 233,746 | 19,313 | (253,059) | — | |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 411,153 | 3,816,843 | — | — | — | 4,227,996 | |
| Other additions | 1,781,272 | 4,683,699 | 360,498 | 335,220 | 345,730 | 7,506,419 | |
| Other disposals | (719,787) | (408,134) | (8,047) | (143,060) | — | (1,279,028) | |
| At 31 December 2008 | 34,410,274 | 35,898,970 | 3,411,945 | 4,095,257 | 573,462 | 78,389,908 | |
| Accumulated depreciation | | | | | | | |
| At 1 January 2008, as restated | 13,165,501 | 4,820,675 | 673,892 | 1,986,752 | — | 20,646,820 | |
| Reclassification upon purchase | 1,580,097 | (1,580,097) | — | — | — | — | |
| Sales and finance lease back | (1,779,979) | 1,779,979 | — | — | — | — | |
| Charge for the year | 2,138,172 | 1,913,877 | 108,826 | 379,654 | — | 4,540,529 | |
| Other disposals | (520,373) | (408,134) | (932) | (6,326) | — | (935,765) | |
| At 31 December 2008 | 14,583,418 | 6,526,300 | 781,786 | 2,360,080 | — | 24,251,584 | |

| | | | | | | |
|--------------------------------|------------|------------|-----------|-----------|---------|------------|
| Impairment | | | | | | |
| At 1 January 2008 | — | — | 13,094 | 550 | 4,303 | 17,947 |
| Charge for the year (Note (a)) | 966,191 | 473,393 | — | — | 2,320 | 1,441,904 |
| At 31 December 2008 | 966,191 | 473,393 | 13,094 | 550 | 6,623 | 1,459,851 |
| Net book amount | | | | | | |
| At 31 December 2008 | 18,860,665 | 28,899,277 | 2,617,065 | 1,734,627 | 566,839 | 52,678,473 |
| At 1 January 2008 | 19,762,993 | 22,995,029 | 2,138,762 | 1,896,482 | 476,488 | 47,269,754 |

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| | Group | | | | | |
|---|--|--------------------------------------|----------------------|--|-----------|------------------|
| | Aircraft, engines and flight equipment | | Buildings RMB'000 | Other property, plant and construction equipment in progress | | Total RMB'000 |
| | Owned RMB'000 | Held under finance leases RMB'000 | | RMB'000 | RMB'000 | |
| January 2007, as restated | 31,922,671 | 21,310,056 | 2,752,340 | 3,514,463 | 250,112 | 59,749,642 |
| Adjustment upon a purchase | 4,203,030 | (4,203,030) | — | — | — | — |
| Adjustment from construction in progress | — | — | 84,402 | 91,269 | (175,671) | — |
| Adjustment from advanced payments | — | — | — | — | — | — |
| Reclassification of aircraft (Note 21) | 189,402 | 4,920,311 | — | — | — | 5,109,713 |
| Revisions | 1,792,502 | 6,026,340 | 51,276 | 380,211 | 406,350 | 8,656,679 |
| Transfer to a jointly controlled entity (Note 24) | — | — | (28,489) | (2,773) | — | (31,262) |
| Disposals | (788,727) | (237,973) | (33,781) | (99,386) | — | (1,159,867) |
| Transfer to assets held for sale | (4,390,384) | — | — | — | — | (4,390,384) |
| December 2007 | 32,928,494 | 27,815,704 | 2,825,748 | 3,883,784 | 480,791 | 67,934,521 |
| Accumulated depreciation | | | | | | |
| January 2007, as restated | 12,472,726 | 5,393,870 | 582,072 | 1,659,800 | — | 20,108,468 |
| Adjustment upon a purchase | 2,203,703 | (2,203,703) | — | — | — | — |
| For the year | 2,221,399 | 1,868,481 | 103,622 | 394,683 | — | 4,588,185 |
| Transfer to a jointly controlled entity | — | — | (5,562) | (1,426) | — | (6,988) |
| Disposals | (786,032) | (237,973) | (6,240) | (66,305) | — | (1,096,550) |
| Transfer to assets held for sale | (2,946,295) | — | — | — | — | (2,946,295) |
| December 2007 | 13,165,501 | 4,820,675 | 673,892 | 1,986,752 | — | 20,646,820 |
| Intangible assets | | | | | | |
| January 2007, as restated | — | — | 13,094 | 550 | 4,303 | 17,947 |
| For the year | — | — | — | — | — | — |
| December 2007 | — | — | 13,094 | 550 | 4,303 | 17,947 |
| Amount | | | | | | |
| December 2007 | 19,762,993 | 22,995,029 | 2,138,762 | 1,896,482 | 476,488 | 47,269,754 |
| January 2007 | 19,449,945 | 15,916,186 | 2,157,174 | 1,854,113 | 245,809 | 39,623,227 |

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FINANCIAL INFORMATION OF THE GROUP

| | Company | | | | | |
|---|--|--------------------------------------|----------------------|--|-------------------------------------|------------------|
| | Aircraft, engines and flight equipment | | Buildings RMB'000 | Other property, plant and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
| | Owned RMB'000 | Held under finance leases RMB'000 | | | | |
| Cost | | | | | | |
| At 1 January 2008, as restated | 27,203,710 | 23,659,953 | 1,539,304 | 2,433,576 | 205,951 | 55,042,494 |
| Reclassification upon a purchase | 3,094,561 | (3,094,561) | — | — | — | — |
| Sales and finance lease back | (3,085,419) | 3,085,419 | — | — | — | — |
| Transfers from construction in progress | — | — | 56,226 | 19,314 | (75,540) | — |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 411,153 | 3,816,843 | — | — | — | 4,227,996 |
| Other additions | 1,662,101 | 4,616,658 | 346,804 | 150,603 | 284,791 | 7,060,957 |
| Other disposals | (494,530) | (360,988) | (2,070) | (95,289) | — | (952,877) |
| At 31 December 2008 | 28,791,576 | 31,723,324 | 1,940,264 | 2,508,204 | 415,202 | 65,378,570 |
| Accumulated depreciation | | | | | | |
| At 1 January 2008, as restated | 10,254,289 | 4,333,277 | 409,816 | 1,460,062 | — | 16,457,444 |
| Reclassification upon purchase | 1,580,097 | (1,580,097) | — | — | — | — |
| Sales and finance lease back | (1,779,979) | 1,779,979 | — | — | — | — |
| Charge for the year | 1,929,703 | 1,636,342 | 53,734 | 271,797 | — | 3,891,576 |
| Other disposals | (478,713) | (360,988) | (346) | (88,027) | — | (928,074) |
| At 31 December 2008 | 11,505,397 | 5,808,513 | 463,204 | 1,643,832 | — | 19,420,946 |
| Impairment | | | | | | |

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| | | | | | | |
|---|------------|------------|-----------|---------|---------|------------|
| At 1 January 2008 | — | — | — | — | 4,303 | 4,303 |
| Charge for the year (Note (a)) | 966,191 | 473,393 | — | — | 897 | 1,440,481 |
| At 31 December 2008 | 966,191 | 473,393 | — | — | 5,200 | 1,444,784 |
| Net book amount At 31 December 2008 | 16,319,988 | 25,441,418 | 1,477,060 | 864,372 | 410,002 | 44,512,840 |
| At 1 January 2008 | 16,949,421 | 19,326,676 | 1,129,488 | 973,514 | 201,648 | 38,580,747 |

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FINANCIAL INFORMATION OF THE GROUP

| | Company | | | | | | Total RMB'000 |
|--|---|--|----------------------|--|----------------|-------------------|------------------|
| | Aircraft, engines and flight equipment | | Buildings RMB'000 | Other property, plant and Construction equipment in progress | | RMB'000 | |
| | Owned RMB'000 | Held under finance leases RMB'000 | | RMB'000 | RMB'000 | | |
| Cost | | | | | | | |
| At 1 January 2007, as restated | 22,709,498 | 18,475,510 | 1,503,144 | 2,212,408 | 155,533 | 45,056,093 | |
| Reclassification upon a purchase | 3,909,982 | (3,909,982) | — | — | — | — | |
| Transfers from construction in progress | — | — | 82,588 | 13,388 | (95,976) | — | |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 114,941 | 4,177,685 | — | — | — | 4,292,626 | |
| Other additions | 1,070,095 | 5,149,747 | 1,437 | 289,425 | 146,394 | 6,657,098 | |
| Disposal to a jointly controlled entity (Note 24) | — | — | (28,489) | (2,773) | — | (31,262) | |
| Other disposals | (597,936) | (233,007) | (19,376) | (78,872) | — | (929,191) | |
| Transfers to assets held for sale | (2,870) | — | — | — | — | (2,870) | |
| At 31 December 2007 | 27,203,710 | 23,659,953 | 1,539,304 | 2,433,576 | 205,951 | 55,042,494 | |
| Accumulated depreciation | | | | | | | |
| At 1 January 2007, as restated | 7,145,363 | 5,001,753 | 369,913 | 1,226,280 | — | 13,743,309 | |
| Reclassification upon a purchase | 2,061,531 | (2,061,531) | — | — | — | — | |
| Charge for the year | 1,642,746 | 1,626,062 | 49,979 | 293,667 | — | 3,612,454 | |
| Disposal to a jointly controlled entity (Note 24) | — | — | (5,562) | (1,426) | — | (6,988) | |
| Other disposals | (595,240) | (233,007) | (4,514) | (58,459) | — | (891,220) | |
| Transfers to assets held for sale | (111) | — | — | — | — | (111) | |
| At 31 December 2007 | 10,254,289 | 4,333,277 | 409,816 | 1,460,062 | — | 16,457,444 | |
| Impairment | | | | | | | |
| At 1 January 2007, as restated | — | — | — | — | 4,303 | 4,303 | |
| Charge for the year | — | — | — | — | — | — | |
| At 31 December 2007 | — | — | — | — | 4,303 | 4,303 | |
| Net book amount | | | | | | | |
| At 31 December 2007 | 16,949,421 | 19,326,676 | 1,129,488 | 973,514 | 201,648 | 38,580,747 | |
| At 1 January 2007 | 15,564,135 | 13,473,757 | 1,133,231 | 986,128 | 151,230 | 31,308,481 | |

Notes:

- (a) In view of the decline in demand on the air transportation market under the current economic environment, the Group performed an impairment test on property, plant and equipment (“PP&E”) as at 31 December 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft model and the related equipment which reflects their relatively lower operation efficiency and which management intend to retire in the near future (Note 10). In determining the recoverable amounts of the related assets, management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values.

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(b) As at 31 December 2008, certain aircraft and buildings owned by the Group and the Company with an aggregate net book amount of approximately RMB8,723 million and RMB7,209 million respectively (2007 : RMB9,865 million and RMB8,990 million respectively) were pledged as collateral under certain loan arrangements (note 32).

20. LEASE PREPAYMENTS

| | Group | | Company | |
|---|------------------|------------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Cost | | | | |
| At 1 January | 1,175,104 | 1,247,104 | 546,404 | 616,553 |
| Other additions | 54,964 | — | 5,381 | — |
| Disposal to a jointly controlled entity (Note 24) | — | (70,149) | — | (70,149) |
| Other disposals | — | (1,851) | — | — |
| At 31 December | 1,230,068 | 1,175,104 | 551,785 | 546,404 |
| Accumulated amortisation | | | | |
| At 1 January | 207,607 | 192,742 | 121,268 | 118,885 |
| Charge for the year | 25,940 | 24,847 | 10,245 | 11,502 |
| Disposal to a jointly controlled entity (Note 24) | — | (9,119) | — | (9,119) |
| Other disposals | — | (863) | — | — |
| At 31 December | 233,547 | 207,607 | 131,513 | 121,268 |
| Net book amount | | | | |
| At 31 December | 996,521 | 967,497 | 420,272 | 425,136 |

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 2008, the majority of these land use rights had remaining terms ranging from 38 to 53 years (2007 : from 39 to 54 years).

21. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| At 1 January | 6,695,573 | 7,668,708 | 6,695,573 | 7,006,853 |
| Additions | 3,603,824 | 3,737,079 | 3,603,824 | 3,604,445 |
| Interest capitalised (Note 13) | 342,153 | 399,499 | 342,153 | 376,901 |
| Transfers to property, plant and equipment (Note 19) | (4,227,996) | (5,109,713) | (4,227,996) | (4,292,626) |

| | | | | |
|----------------|-----------|-----------|-----------|-----------|
| At 31 December | 6,413,554 | 6,695,573 | 6,413,554 | 6,695,573 |
|----------------|-----------|-----------|-----------|-----------|

Included in the Group's and the Company's balance as at 31 December 2008 is accumulated interest capitalised of RMB518 million (2007 : RMB553 million), at an average interest rate of 5.43% (2007 : 5.90%).

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22. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries, all of which are limited liability companies established and operating in the PRC or Hong Kong, are as follows:

| Company | Place and date of establishment | Paid-up capital | | Attributable equity interest | | Principal activities |
|---|---------------------------------|-----------------|-----------------|------------------------------|------|---|
| | | 2008 RMB'000 | 2007 RMB'000 | 2008 | 2007 | |
| China Eastern Airlines Jiangsu Co., Ltd. ("CEA Jiangsu") | PRC 3 May 1993 | 880,000 | 880,000 | 63% | 63% | Provision of airline services |
| China Cargo Airlines Co., Ltd. ("China Cargo") | PRC 22 July 1998 | 950,000 | 950,000 | 70% | 70% | Provision of cargo carriage services |
| China Eastern Airlines Wuhan Co., Ltd. ("CEA Wuhan") | PRC 16 August 2002 | 600,000 | 600,000 | 96% | 96% | Provision of airline services |
| Shanghai Eastern Flight Training Co., Ltd. | PRC 18 December 1995 | 473,000 | 473,000 | 95% | 95% | Provision of flight training services |
| Shanghai Eastern Airlines Logistics Co., Ltd. ("Eastern Logistics") | PRC 23 August 2004 | 200,000 | 200,000 | 70% | 70% | Provision of cargo logistics services |
| Eastern Airlines Hotel Co., Ltd. | PRC 18 March 1998 | 70,000 | 70,000 | 86% | 86% | Provision of hotel services primarily to crew members |
| Shanghai Eastern Maintenance Co., Ltd. | PRC 27 November 2002 | 25,658 | 25,658 | 60% | 60% | Provision of aircraft repair and maintenance services |
| China Eastern Airlines Development (HK) Co., Ltd. | PRC 20 May 1995 | 10,047 | 10,047 | 80% | 80% | Provision of ticket sales and logistics |

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| | | | | | | |
|--|--------------------------|--------|--------|------|------|---|
| China Eastern Airlines (Shantou) Economics Development Co., Ltd. | PRC 18 March 1998 | 10,000 | 10,000 | 55% | 55% | Provision of airline equipment sales |
| China Eastern Airline Gifting Co., Ltd. | PRC 17 August 2007 | 50,000 | 50,000 | 100% | 100% | Provision of marketing services |
| Eastern Business Airline Service Co., Ltd. | PRC 27 September 2008 | 50,000 | — | 100% | — | Provision of airlines consultation services |

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23. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|--|---------|---------|---------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unlisted investments, at cost | 808,417 | 425,817 | 762,058 | 377,872 |
| Share of post acquisition results/reserves | 171,902 | 175,302 | — | — |
| | 980,319 | 601,119 | 762,058 | 377,872 |

The movement on investments in associates is as follows:

| | Group | | Company | |
|---|----------|-----------|---------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January | 601,119 | 623,390 | 377,872 | 377,872 |
| Costs of additional investments | 384,186 | — | 384,186 | — |
| Disposal of an indirectly held associate | (3,820) | (102,750) | — | — |
| Share of results of associates | 69,668 | 58,312 | — | — |
| Share of revaluation surplus/ (deficits) on available for sale investments held by associates | (19,080) | 22,167 | — | — |
| Dividend received during the year | (51,754) | — | — | — |
| At 31 December | 980,319 | 601,119 | 762,058 | 377,872 |

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Particulars of the principal associates, all of which are limited liability companies established and operating in the PRC, are as follows:

| Company | Place and date of establishment | Paid-up capital | | Attributable equity interest | | Principal activities |
|---|---------------------------------|-----------------|-----------------|------------------------------|------|---|
| | | 2008 RMB'000 | 2007 RMB'000 | 2008 | 2007 | |
| Eastern Air Group Finance Co., Ltd. ("EAGF") | PRC 6 December 1995 | 400,000 | 400,000 | 25% | 25% | Provision of financial services to group companies of CEA Holding |
| China Eastern Air Catering Investment Co., Ltd. | PRC 17 November 2003 | 350,000 | 350,000 | 45% | 45% | Provision of air catering services |
| Jiangsu Huayu General Aviation Co., Ltd. | PRC 1 December 2004 | 110,000 | 110,000 | 27% | 27% | Provision of aviation support services |
| Eastern Aviation Import & Export Co., Ltd ("EAIEC") | PRC 9 June 1993 | 80,000 | 80,000 | 45% | 45% | Provision of aviation equipment, spare |
| Collins Aviation Maintenance Service Shanghai Ltd. | PRC 27 September 2002 | 57,980 | 57,980 | 35% | 35% | Provision of airline electronic product maintenance services |
| Shanghai Dongmei Aviation Travel Co., Ltd. ("SDATC") | PRC 17 October 2004 | 31,000 | 31,000 | 27% | 27% | Provision of traveling and accommodation agency services |
| Shanghai Hongpu Civil Airport Communication Co., Ltd. | PRC 18 October 2002 | 25,000 | 25,000 | 30% | 30% | Provision of cable and wireless communication services |
| Eastern Aviation Advertising Service Co., Ltd. | PRC 04 March 1986 | 10,320 | 10,320 | 45% | 45% | Provision of aviation advertising agency |

| ("CAASC") | | | | | services |
|---|----------------------|------------|---|-----|--|
| Joy Air Co., Ltd (Note (a)) | PRC 28 March 2008 | 600,000 | — | 40% | — Provision of regional airline transportation |
| Shanghai Pratt & Whitney Maintenance Company Limited (Note (b)) | PRC 28 March 2008 | USD 39,500 | — | 51% | — Provision of maintenance Aircraft Engine of aircraft, engine and other related components maintenance services |

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Note:

- (a) On 24 January 2008, the Company entered into an agreement with China Aviation Industry Corporation to establish Joy Air Company Limited (“Joy Air”). The Company holds a 40% interests of Joy air. As at 31 December 2008, the Company contributed RMB240 million in cash. Joy Air is still in preparation period as at the balance sheet date.
- (b) In 2008, the Company entered into an agreement with a third party to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited (“Shanghai P&W”). Shanghai P&W’s registered capital is USD40 million, in which the Company holds 51% interests. As at 31 December 2008, the Company contributed USD20,145,000 in cash to Shanghai P&W. According to the agreement, the third party has the power to govern the financial and operating policies of Shanghai P&W and hence the Company accounts for Shanghai P&W as an associate. At the balance sheet date, Shanghai P&W is still in preparation period.
- (c) The Group’s aggregated share of the revenues, results, assets and liabilities of its associates are as follows:

| | Assets RMB’000 | Liabilities RMB’000 | Revenues RMB’000 | Profit/(loss) RMB’000 |
|------|-------------------|------------------------|---------------------|--------------------------|
| 2008 | 4,326,145 | 3,345,826 | 913,845 | 69,668 |
| 2007 | 2,194,818 | 1,593,699 | 919,495 | 58,312 |

24. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB’000 | 2007 RMB’000 | 2008 RMB’000 | 2007 RMB’000 |
| Unlisted investments, at cost | 270,208 | 268,892 | 301,802 | 301,802 |
| Share of post-acquisition results/reserves | 92,124 | 68,074 | — | — |
| | 362,332 | 336,966 | 301,802 | 301,802 |

The movement on investments in jointly controlled entities is as follows:

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB’000 | 2007 RMB’000 | 2008 RMB’000 | 2007 RMB’000 |
| At 1 January | 336,966 | 115,540 | 301,802 | 59,552 |
| Other addition | — | 209,340 | — | 242,250 |
| Dividend received during the year | — | (18,000) | — | — |
| Share of results | 24,050 | 30,086 | — | — |
| Amortisation of previously unrecognised gain | 1,316 | — | — | — |

| | | | | |
|----------------|---------|---------|---------|---------|
| At 31 December | 362,332 | 336,966 | 301,802 | 301,802 |
|----------------|---------|---------|---------|---------|

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Particulars of the principal jointly controlled entities, all of which are limited liability companies established and operating in the PRC are as follows:

| Company | Place and date of establishment | Paid-up capital | | Attributable equity interest | | Principal activities |
|---|---------------------------------|-----------------|-----------------|------------------------------|------|--|
| | | 2008 RMB'000 | 2007 RMB'000 | 2008 | 2007 | |
| Shanghai Technologies Aerospace Co., Ltd. ("STA") (Note (a)) | PRC 28 September 2004 | 576,795 | 576,795 | 51% | 51% | Provision of repair and maintenance services |
| Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. ("Wheels & Brakes") | PRC 28 December 1995 | 17,484 | 17,484 | 40% | 40% | Provision of spare parts repair and maintenance services |
| Eastern China Kaiya System Integration Co., Ltd. | PRC 21 May 1999 | 10,000 | 10,000 | 41% | 41% | Provision of computer systems development |

Notes:

(a) Under a Joint Venture Agreement with the other joint venture partner of STA dated 10 March 2003, the Company has agreed to share control over the economic activities of STA. Any strategic financial and operating decisions relating to the activities of STA require the unanimous consent of the Company and the other joint venture partner.

(b) The Group's aggregated share of the revenues, results, assets and liabilities of its jointly controlled entities is as follows:

| | Assets RMB'000 | Liabilities RMB'000 | Revenues RMB'000 | Profit/(loss) RMB'000 |
|------|-------------------|------------------------|---------------------|--------------------------|
| 2008 | 404,888 | 42,556 | 187,997 | 24,050 |
| 2007 | 382,501 | 45,535 | 205,188 | 30,086 |

25.

OTHER LONG-TERM ASSETS

| Group | | Company | |
|-----------------|-----------------|-----------------|-----------------|
| 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| | | | |

| | | | | |
|---|---------|---------|---------|---------|
| Deposits relating to aircraft under operating leases (Note (a)) | 509,887 | 508,903 | 360,061 | 361,453 |
| Prepaid flight training fees (Note (b)) | 337,597 | 43,920 | 326,254 | 43,920 |
| Prepaid staff benefits (Note (c)) | 26,888 | 40,567 | 21,401 | 32,398 |
| Rental and renovation deposits | 26,460 | 33,032 | 26,460 | 33,032 |
| Other long-term receivables | 40,724 | 34,329 | 31,175 | 28,046 |
| | 941,556 | 660,751 | 765,351 | 498,849 |

Notes:

- (a) The fair value of deposits relating to aircraft held under operating leases of the Group and the Company are RMB473 million and RMB349 million (2007 : RMB441 million and RMB318 million), which are determined using the expected future payments discounted at market interest rates prevailing at the year end of 0.75%– 2.79% (2007 : 2.4%–3.06%).

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- (b) Prepaid flight training expenses represent the training expenses prepaid for pilot undergraduates and pilots in service of the Group and are amortised over the relevant training periods for which the prepayments cover on a straight-line basis.
- (c) Prepaid staff benefits represent subsidies to certain employees as an encouragement to purchase motor vehicles. The employees are required to continue serving the Group for six years from the date of receipt of the subsidies. If the employee leaves before the end of the six-year period, a refund by the employee is required to be calculated on a pro-rata basis. These subsidies are amortised over six years on the straight-line basis.

26. TRADE RECEIVABLES AND NOTES RECEIVABLE

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 | | Company | |
|---|-----------|-----------|----------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within 90 days | 1,088,951 | 1,761,799 | 733,498 | 1,098,281 |
| 91 to 180 days | 24,282 | 104,991 | 12,546 | 97,212 |
| 181 to 365 days | 30,451 | 187,355 | 27,800 | 150,506 |
| Over 365 days | 103,919 | 101,769 | 63,286 | 84,914 |
| | 1,247,603 | 2,155,914 | 837,130 | 1,430,913 |
| Less: provision for impairment of receivables | (101,081) | (59,907) | (86,635) | (55,757) |
| Trade receivables | 1,146,522 | 2,096,007 | 750,495 | 1,375,156 |

The carrying amounts of the trade receivables approximate their fair value.

Trade receivables that were neither past due nor impaired relate to a large number of independent sales agents for whom there is no recent history of default.

As at 31 December 2008, trade receivables of RMB153 million (2007 : RMB360 million) were past due but not impaired. These relate to a number of independent sales agents for whom there is no recent history of default. The Group holds cash deposits of RMB175 million (2007 : RMB202 million) from these agents. The ageing analysis of these trade receivables is as follows:

| | Group | | Company | |
|--|---------|---------|---------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |

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| | | | | |
|----------------|---------|---------|--------|---------|
| Up to 6 months | 122,407 | 202,238 | 34,950 | 156,897 |
| 6 to 12 months | 30,451 | 157,850 | 27,800 | 126,517 |
| | 152,858 | 360,088 | 62,750 | 283,414 |

As at 31 December 2008, trade receivables of RMB84 million (2007 : RMB44 million) were impaired and fully provided for. The remaining impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The factors considered by management in determining the impairment are described in Note 2(r).

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The ageing of impaired receivables is as follows:

| | Group | | Company | |
|-------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| 12 to 24 months overdue | 15,660 | 26,734 | 551 | 18,527 |
| Over 24 months overdue | 88,259 | 75,035 | 62,734 | 66,387 |
| | 103,919 | 101,769 | 63,285 | 84,914 |

Movements on the Group's provision for impairment of trade receivables are as follows:

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| At 1 January | 59,907 | 90,405 | 55,757 | 87,195 |
| Receivables written off during the year as uncollectible | (1,027) | (4,009) | (552) | (4,009) |
| Provision for impairment of receivables | 42,201 | — | 31,430 | — |
| Unused amounts reversed | — | (26,489) | — | (27,429) |
| At 31 December | 101,081 | 59,907 | 86,635 | 55,757 |

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| Currency | Group | | Company | |
|------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Renminbi | 899,905 | 1,800,355 | 552,572 | 1,159,012 |
| US Dollars | 51,075 | 89,944 | 17,580 | 15,255 |
| HK Dollars | 48,901 | 80,246 | 46,916 | 80,094 |
| Korea Won | 9,021 | 41,538 | 24,620 | 41,538 |
| Euro | 42,706 | 54,185 | 9,021 | 49,517 |
| Japanese Yen | 56,003 | 1,323 | 55,929 | 1,323 |
| Other currencies | 38,911 | 28,416 | 43,857 | 28,417 |
| | 1,146,522 | 2,096,007 | 750,495 | 1,375,156 |

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 maximum exposure to credit risk at the reporting date is the carrying amount of receivable shown above.

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27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|--|-----------|-----------|-----------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Restricted bank deposits (Note (a)) | 2,159,848 | — | 2,082,075 | — |
| Rebates receivable on aircraft acquisitions | 930,665 | 929,652 | 881,395 | 875,786 |
| Deposits relating to aircraft under finance leases — current portion | — | 419,604 | — | 419,604 |
| Ground Service Fees | 310,452 | 337,166 | 178,300 | 215,296 |
| Prepaid aircraft operating lease rentals | 249,308 | 256,069 | 210,078 | 233,808 |
| Rental deposits | 88,001 | 130,348 | 74,477 | 79,393 |
| Custom duties and value added tax recoverable | 64,501 | 88,747 | 29,127 | 25,612 |
| Prepayments for acquisition of flight equipment and other assets | 36,480 | 60,325 | 34,707 | 36,340 |
| Deposits with banks and a financial institution with original maturity over three months but less than a year (Note (b)) | 33,116 | 52,843 | 31,860 | 52,843 |
| Others | 253,848 | 280,895 | 184,757 | 211,927 |
| | 4,126,219 | 2,555,649 | 3,706,776 | 2,150,609 |

Notes:

(a) The restricted bank deposits represent: i) a deposit of RMB1,347 million pledged against 188 million US dollar loan (2007 : Nil); ii) a security deposit of US dollar 117 million (RMB796 million equivalent) for fuel option contracts (2007 : Nil); iii) a deposit of RMB17 million for notes payable (2007 : Nil).

(b) As at 31 December 2008, the effective interest rate on deposits with banks with original maturity over three months but less than a year was 0.36% (2007 : 0.7%).

28.

CASH AND CASH EQUIVALENTS

The carrying amounts of the Group's and Company's cash and cash equivalents are denominated in the following currencies:

| | Group | | Company | |
|------------|-----------|---------|-----------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Renminbi | 2,623,585 | 585,797 | 1,636,815 | 322,447 |
| US Dollars | 494,249 | 736,951 | 441,671 | 460,383 |

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| | | | | |
|--------------------|-----------|-----------|-----------|-----------|
| Euro | 126,695 | 92,205 | 95,622 | 60,122 |
| Japanese Yen | 37,657 | 70,996 | 22,705 | 57,480 |
| Pounds Sterling | 11,016 | 16,141 | 11,016 | 16,141 |
| Australian Dollars | 18,922 | 14,991 | 18,915 | 14,991 |
| Canadian Dollars | 12,394 | 25,332 | 12,245 | 25,332 |
| Singapore Dollars | 42,617 | 1,116 | 42,617 | 1,116 |
| Others | 83,875 | 111,715 | 80,335 | 82,885 |
| | 3,451,010 | 1,655,244 | 2,361,941 | 1,040,897 |

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APPENDIX I

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29. TRADE PAYABLES AND NOTES PAYABLE

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

| | Group | | Company | |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Within 90 days | 3,310,710 | 1,465,079 | 3,109,316 | 1,228,690 |
| 91 to 180 days | 1,249,400 | 1,126,091 | 1,241,243 | 1,125,495 |
| 181 to 365 days | 267,785 | 449,391 | 123,544 | 221,750 |
| Over 365 days | 316,963 | 97,319 | 273,127 | 86,781 |
| | 5,144,858 | 3,137,880 | 4,747,230 | 2,662,716 |

As at 31 December 2008, notes payable totaling RMB3,840 million (2007 : RMB1,616 million) were unsecured. Discount rates ranged from 2.9% to 5.9% (2007 : 3.5% to 5.5%) and all notes are repayable within six months.

30. OTHER PAYABLES AND ACCRUED EXPENSES

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Accrued fuel cost | 3,841,660 | 2,348,932 | 3,534,281 | 2,180,773 |
| Accrued take-off and landing charges | 1,879,751 | 1,036,423 | 1,563,049 | 838,218 |
| Accrued aircraft overhaul expenses | 1,256,115 | 1,184,529 | 986,055 | 978,089 |
| Other accrued operating expenses | 1,417,988 | 928,267 | 1,251,514 | 841,311 |
| Accrued salaries, wages and benefits | 976,551 | 1,067,245 | 786,964 | 861,035 |
| Duties and levies payable | 545,482 | 858,966 | 423,527 | 646,588 |
| Staff housing allowance (Note 37(b)) | 386,065 | 363,110 | 317,918 | 332,156 |
| Deposits received from ticket sales agents | 320,254 | 339,064 | 229,399 | 268,064 |
| Current portion of other long-term liabilities (Note 34) | 130,460 | 135,859 | 121,178 | 135,859 |
| Current portion of post-retirement benefit obligations (Note 36(b)) | 46,461 | 34,425 | 43,801 | 31,707 |
| Others | 1,346,388 | 1,294,425 | 1,229,272 | 1,190,894 |
| | 12,147,175 | 9,591,245 | 10,486,958 | 8,304,694 |

31. OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2008, the Group and the Company had 68 and 61 aircraft (2007 : 55 and 48 aircraft) respectively under finance leases. Under the terms of the leases, the Group/the Company has the option to purchase, at or near the end of the lease terms, certain aircraft at fair market value and others at either fair market value or a percentage of the

respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

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The future minimum lease payments (including interest), and the present value of the minimum lease payments under finance leases are as follows:

| | Group | | | | | |
|--|-----------------------------------|---------------------|-----------------------------------|-----------------------------------|---|--|
| | 2008 | | 2007 | | Present value of minimum lease payments | |
| | Minimum lease payments RMB'000 | Interest RMB'000 | Minimum lease payments RMB'000 | Minimum lease payments RMB'000 | Interest RMB'000 | Present value of minimum lease payments RMB'000 |
| Within one year | 2,765,969 | 848,980 | 1,916,989 | 3,356,665 | 811,442 | 2,545,223 |
| In the second year | 2,704,499 | 688,327 | 2,016,172 | 2,206,135 | 638,882 | 1,567,253 |
| In the third to fifth year inclusive | 7,805,669 | 1,602,339 | 6,203,330 | 5,714,466 | 1,509,114 | 4,205,352 |
| After the fifth year | 11,868,053 | 1,195,645 | 10,672,408 | 9,331,048 | 1,196,666 | 8,134,382 |
| Total | 25,144,190 | 4,335,291 | 20,808,899 | 20,608,314 | 4,156,104 | 16,452,210 |
| Less: amount repayable within one year | (2,765,969) | (848,980) | (1,916,989) | (3,356,665) | (811,442) | (2,545,223) |
| Long-term portion | 22,378,221 | 3,486,311 | 18,891,910 | 17,251,649 | 3,344,662 | 13,906,987 |

| | Company | | | | | |
|----------------------------|-----------------------------------|---------------------|-----------------------------------|-----------------------------------|---|--|
| | 2008 | | 2007 | | Present value of minimum lease payments | |
| | Minimum lease payments RMB'000 | Interest RMB'000 | Minimum lease payments RMB'000 | Minimum lease payments RMB'000 | Interest RMB'000 | Present value of minimum lease payments RMB'000 |
| Within one year | 2,458,559 | 743,497 | 1,715,062 | 2,993,378 | 676,597 | 2,316,781 |
| In the second year | 2,400,584 | 594,223 | 1,806,361 | 1,866,827 | 524,660 | 1,342,167 |
| In the third to fifth year | 6,892,822 | 1,380,412 | 5,512,410 | 4,725,108 | 1,230,149 | 3,494,959 |

| | | | | | | |
|--|-------------|-----------|-------------|-------------|-----------|-------------|
| inclusive | | | | | | |
| After the fifth year | 10,534,868 | 1,039,530 | 9,495,338 | 7,574,768 | 956,172 | 6,618,596 |
| Total | 22,286,833 | 3,757,662 | 18,529,171 | 17,160,081 | 3,387,578 | 13,772,503 |
| Less: amount repayable within one year | (2,458,559) | (743,497) | (1,715,062) | (2,993,378) | (676,597) | (2,316,781) |
| Long-term portion | 19,828,274 | 3,014,165 | 16,814,109 | 14,166,703 | 2,710,981 | 11,455,722 |

The fair value of obligations under finance leases of the Group and the Company are RMB21,037 million and RMB18,640 million (2007 : RMB16,577 million and RMB13,863 million respectively), which are determined using the expected future payments discounted at market interest rates prevailing at the year end.

At 31 December 2008, the Group and the Company had bank deposits totaling nil (2007 : RMB420 million) pledged as collateral under certain finance lease arrangements.

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| 32. | BORROWINGS | | | |
|--|--------------------------|-------------------|----------------------------|-------------------|
| | Group 2008 RMB'000 | 2007 RMB'000 | Company 2008 RMB'000 | 2007 RMB'000 |
| Non-current | | | | |
| Long-term bank borrowings | | | | |
| — secured | 3,350,114 | 3,994,947 | 2,189,950 | 3,376,847 |
| — unsecured | 5,237,938 | 7,374,360 | 4,855,130 | 6,273,736 |
| | 8,588,052 | 11,369,307 | 7,045,080 | 9,650,583 |
| Current | | | | |
| Long-term bank borrowings | | | | |
| — secured | 1,133,836 | 772,286 | 742,176 | 615,626 |
| — unsecured | 5,905,655 | 2,533,233 | 5,772,969 | 2,288,940 |
| Short-term bank borrowings | | | | |
| — secured | 1,284,236 | — | 1,222,953 | — |
| — unsecured | 18,189,593 | 15,189,002 | 16,325,335 | 13,039,208 |
| | 26,513,320 | 18,494,521 | 24,063,433 | 15,943,774 |
| Total borrowings | 35,101,372 | 29,863,828 | 31,108,513 | 25,594,357 |
| The borrowings are repayable as follows: | | | | |
| Within one year | 26,513,320 | 18,494,521 | 24,063,433 | 15,943,774 |
| In the second year | 4,147,845 | 5,927,098 | 3,569,348 | 5,515,186 |
| In the third to fifth year inclusive | 3,665,352 | 4,216,517 | 2,977,920 | 3,266,554 |
| After the fifth year | 774,855 | 1,225,692 | 497,812 | 868,843 |
| Total borrowings | 35,101,372 | 29,863,828 | 31,108,513 | 25,594,357 |

Notes:

As at 31 December 2008, the secured bank borrowings of the Group and the Company for the purchases of aircraft were secured by the related aircraft with an aggregate net book amount of RMB8,723 million and RMB7,209 million respectively (2007 : RMB9,865 million and RMB8,990 million) (Note 19).

Certain unsecured bank borrowings of the Group and the Company totaling of RMB357 million and Nil (2007 : RMB1,008 million and Nil respectively) were guaranteed by CEA Holding (Note 44).

Certain unsecured bank borrowings of the Group and the Company totaling of RMB600 million (2007 : Nil) were guaranteed by a third party bank.

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The terms of the long-term bank loans are summarised as follows:

| Currency | Interest rate and final maturities | Group | | Company | |
|----------------------------|---|-----------------|-----------------|-----------------|-----------------|
| | | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| RMB denominated | Interest rates ranging from 4.52% to 8.36% per annum with final maturities through to 2017. | 6,898,178 | 6,132,551 | 5,042,498 | 4,270,211 |
| U.S. dollar denominated | Interest rates ranging from 3 month LIBOR +0.25% to 6 month LIBOR +3% per annum with final maturities through to 2019 | 8,617,707 | 8,418,967 | 8,406,069 | 8,161,630 |
| EURO denominated | Interest rate is 6 months LIBOR +0.6% with final maturity through 2010. | 111,658 | 123,308 | 111,658 | 123,308 |
| Total long-term bank loans | | 15,627,543 | 14,674,826 | 13,560,225 | 12,555,149 |

Note:

(a) The fair value of long-term borrowings of the Group and the Company are RMB15,826 million and RMB13,684 million (2007 : RMB14,111 million and RMB12,124 million), 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.

(b)

Short-term borrowings of the Group and the Company are repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. As at 31 December 2008, the interest rates relating to such borrowings ranged from 2.7% to 7.47% per annum (2007 : 4.39% to 6.72% per annum). During the year ended 31 December 2008, the weighted average interest rate on short-term bank loans was 6.36 % per annum (2007 : 5.75% per annum).

(c) The carrying amounts of the borrowings are denominated in the following currencies:

| | Group | | Company | |
|------------|------------|------------|------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Renminbi | 21,955,769 | 12,528,550 | 18,262,088 | 8,590,026 |
| US Dollars | 13,007,688 | 17,196,836 | 12,734,767 | 16,874,186 |
| Euro | 111,658 | 130,145 | 111,658 | 130,145 |
| HK Dollar | 26,257 | 8,297 | — | — |
| | 35,101,372 | 29,863,828 | 31,108,513 | 25,594,357 |

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33. PROVISION FOR OPERATING LEASE AIRCRAFT RETURN CONDITION CHECK

| | Group | | Company | |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| At 1 January | 956,910 | 510,621 | 737,371 | 429,590 |
| Additional provisions | 618,555 | 446,289 | 431,319 | 307,781 |
| Utilisation | (41,447) | — | — | — |
| At 31 December | 1,534,018 | 956,910 | 1,168,690 | 737,371 |
| Less: current portion | (213,830) | — | (139,710) | — |
| Long-term portion | 1,320,188 | 956,910 | 1,028,980 | 737,371 |

Provision of operating lease aircraft return condition check represents the present value of estimated costs of major return check for aircraft under operating leases as the Group has the responsibility to fulfill certain return conditions under relevant leases.

34. OTHER LONG-TERM LIABILITIES

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Long-term duties and levies payable | 805,794 | 584,791 | 713,522 | 501,867 |
| Fair value of unredeemed points awarded under the Group's frequent flyer program | 364,858 | 378,361 | 364,858 | 378,361 |
| Long-term payable to the Bureau of 2010 Expo Shanghai (Note 18(b)) | 177,883 | 232,811 | 177,883 | 232,811 |
| Long-term payable to Aviation China Civil Flight Institute (Note (a)) | 30,000 | 60,000 | 30,000 | 60,000 |
| Deferred gains on sale and leaseback transactions of aircraft | 14,549 | 21,011 | 14,549 | 21,011 |
| Other long-term payable | 58,135 | 101,582 | 56,319 | 101,582 |
| | 1,451,219 | 1,378,556 | 1,357,131 | 1,295,632 |
| Less: Current portion | (130,460) | (135,859) | (121,178) | (135,859) |
| Long-term portion | 1,320,759 | 1,242,697 | 1,235,953 | 1,159,773 |

Notes:

- (a) The balance is unsecured, interest bearing at an effective rate of 6.21% per annum and is repayable by annual instalments of RMB30 million up to year 2009.

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35.

DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Deferred tax assets | | | | |
| — Deferred tax asset to be utilised after 12 months | 79,802 | 111,874 | — | — |
| — Deferred tax asset to be utilised within 12 months | 2,145 | 1,337 | — | — |
| | 81,947 | 113,211 | — | — |
| Deferred tax liabilities | | | | |
| — Deferred tax liability to be realised after 12 months | (55,444) | (50,369) | — | — |
| — Deferred tax liability to be realised within 12 months | (2,145) | — | — | — |
| | (57,589) | (50,369) | — | — |

Movements in the net deferred taxation asset/(liability) are as follows:

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| At 1 January | 62,842 | 13,687 | — | — |
| (Charged)/credited to income statement (Note 14) | (38,484) | 49,155 | — | — |
| At 31 December | 24,358 | 62,842 | — | — |

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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:

| | Group | | Company | |
|--|-------------|-----------|-------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deferred tax assets: | | | | |
| Tax losses carried forward | 1,846 | 317,392 | — | 313,755 |
| Impairment provision for obsolete flight equipment spare parts | 78,634 | 138,783 | 74,872 | 136,614 |
| Impairment provision for receivables | 68,553 | 79,195 | 52,872 | 44,348 |
| Impairment provision for property, plant and equipment | 170,808 | — | 170,451 | — |
| Provision for aircraft overhaul expense | 152,231 | 96,834 | 135,196 | 56,985 |
| Provision for frequent flyer program | 13,619 | — | 13,619 | — |
| Financial derivative liabilities | 313,488 | 10,449 | 313,488 | 10,449 |
| Provision for post-retirement benefits | 271,672 | 351,283 | 247,424 | 306,694 |
| | 1,070,851 | 993,936 | 1,007,922 | 868,845 |
| Deferred tax liabilities: | | | | |
| Depreciation and amortisation | (1,024,173) | (931,094) | (985,602) | (868,845) |
| Financial derivative assets | (22,320) | — | (22,320) | — |
| | (1,046,493) | (931,094) | (1,007,922) | (868,845) |

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Movements of the net deferred tax assets/(liabilities) of the Group for the year:

| | At the beginning of the year RMB'000 | (Charged)/ credited to income statement RMB'000 | (Charged)/ credited to equity RMB'000 | At the end of the year RMB'000 |
|---|---|---|--|--------------------------------------|
| For the year ended 31 December 2008 | | | | |
| Tax losses carried forward | 317,392 | (315,546) | — | 1,846 |
| Impairment provision for obsolete flight equipment spare parts | 138,783 | (60,149) | — | 78,634 |
| Impairment provision for receivables | 79,195 | (10,642) | — | 68,553 |
| Impairment provision for property, plant and equipment | — | 170,808 | — | 170,808 |
| Provision for aircraft overhaul expense | 96,834 | 55,397 | — | 152,231 |
| Provision for frequent flyer program | — | 13,619 | — | 13,619 |
| Financial derivative liabilities | 10,449 | 303,039 | — | 313,488 |
| Provision for post-retirement benefits | 351,283 | (79,611) | — | 271,672 |
| | 993,936 | 76,915 | — | 1,070,851 |
| Depreciation and amortisation | (931,094) | (93,079) | — | (1,024,173) |
| Financial derivative assets | — | (22,320) | — | (22,320) |
| Net deferred tax assets/(liabilities) | 62,842 | (38,484) | — | 24,358 |
| For the year ended 31 December 2007 | | | | |
| Tax losses carried forward | 90,335 | 227,057 | — | 317,392 |
| Impairment provision for obsolete flight equipment spare parts | 68,574 | 70,209 | — | 138,783 |
| Impairment provision for receivables | 57,467 | 21,728 | — | 79,195 |
| Provision for aircraft overhaul expense | 77,000 | 19,834 | — | 96,834 |
| Financial derivative liabilities | 20,823 | (10,374) | — | 10,449 |
| Provision for post-retirement benefits | 216,570 | 134,713 | — | 351,283 |
| | 530,769 | 463,167 | — | 993,936 |
| Depreciation and amortisation | (517,082) | (414,012) | — | (931,094) |
| Net deferred tax assets | 13,687 | 49,155 | — | 62,842 |

In accordance with the PRC tax law, tax losses can be carried forward to offset against future taxable income for a period of five years. As at 31 December 2008, the Group and the Company had tax losses carried forward of approximately RMB11,465 million and RMB8,778 million respectively (2007 : RMB5,380 million and RMB4,119

million respectively) which will expire between 2009 and 2013, and which are available to set off against the Group and the Company's future taxable income. As at 31 December 2008, the Group and the Company did not recognise RMB2,864 million and RMB2,195 million respectively (2007 : RMB1,035 million and RMB718 million respectively) of deferred tax assets arising from tax losses available as management did not consider it probable that such tax losses would be realised before they expire.

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36. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS

(a) Defined contribution retirement schemes

(i) Pension

The Group companies participate in defined contribution retirement schemes organised by municipal governments of the various provinces in which the Group companies operate, and substantially all of the Group's PRC employees are eligible to participate in the Group companies' retirement schemes. The Group companies are required to make annual contributions to the schemes at rates ranging from 20% to 22% on the employees' prior year salary and allowances. Employees are required to contribute to the schemes at rates ranging from 7% to 8% of their basic salaries. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under these schemes. For the year ended 31 December 2008, the Group's pension cost charged to the consolidated income statement amounted to RMB360 million (2007 : RMB296 million).

(ii) Medical insurance

The majority of the Group's PRC employees participate in the medical insurance schemes organised by the municipal governments, under which the Group and its employees are required to contribute to the scheme approximately 12% and 2%, respectively, of the employee's basic salaries. For those employees who participate in these schemes, the Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended 31 December 2008, the Group's medical insurance contributions charged to the income statement amounted to RMB93 million (2007 : RMB77 million).

(b) Post-retirement benefits

In addition to the above retirement schemes, the Group provides retirees with other post-retirement benefits including transportation subsidies, social function activities subsidies and others. The expected cost of providing these post-retirement benefits is actuarially determined and 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:

| | Group | | Company | |
|---|-------------|-----------|-------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Present value of unfunded post-retirement benefit obligations | 4,481,420 | 2,155,393 | 3,941,724 | 1,861,036 |
| Unrecognised actuarial losses | (2,965,835) | (750,266) | (2,611,045) | (634,259) |
| Post-retirement benefit obligations | 1,515,585 | 1,405,127 | 1,330,679 | 1,226,777 |
| Less: current portion (Note 30) | (46,461) | (34,425) | (43,801) | (31,707) |
| Long-term portion | 1,469,124 | 1,370,702 | 1,286,878 | 1,195,070 |

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Changes in post-retirement benefit obligations are as follows:

| | Group | | Company | |
|--|-----------|-----------|-----------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January | 1,405,127 | 1,323,684 | 1,226,777 | 1,173,380 |
| Total expenses charged in the income statement | 200,603 | 170,670 | 181,309 | 128,057 |
| Payments | (90,145) | (89,227) | (77,407) | (74,660) |
| At 31 December | 1,515,585 | 1,405,127 | 1,330,679 | 1,226,777 |

The costs of post-retirement benefits are recognised under wages, salaries and benefits in the income statements as follows:

| | Group | | Company | |
|-----------------------------|---------|---------|---------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current service cost | 74,478 | 73,416 | 71,552 | 55,624 |
| Interest cost | 102,009 | 83,858 | 89,145 | 63,678 |
| Actuarial losses recognised | 24,116 | 13,396 | 20,612 | 8,755 |
| Total (Note 9) | 200,603 | 170,670 | 181,309 | 128,057 |

The principal actuarial assumptions at the balance sheet date are as follows:

| | Group and Company | |
|---|-------------------|---------|
| | 2008 | 2007 |
| Discount rate | 3.75% | 4.75% |
| Annual rate of increase of per capita benefit payment | 3% | 2.5% |
| Employee turnover rate | 3.00% | 3.0% |
| Mortality rate | 8.80% | 8.43% |
| Medical inflation rate | 5% | 2.5%–5% |

37.

STAFF HOUSING BENEFITS

(a)

Staff housing fund

In accordance with the PRC housing reform regulations, the Group is required to contribute to the State-sponsored housing fund at rates ranging from 7% to 15% (2007 : 7% to 15%) of the specified salary amount of its PRC employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal

circumstances. For the year ended 31 December 2008, the Group's contributions to the housing funds amounted to RMB282 million (2007 : RMB285 million) which has been charged to the consolidated income statement. The staff housing fund payable as at 31 December 2008 is RMB25 million (2007 : RMB17 million). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Staff housing allowances

The Group also provides cash staff housing allowances to eligible employees who have not been allocated with any housing quarters or who have not been allocated with a quarter above the minimum as set out in the Group's staff housing allowance policy introduced in October 2003 (the "Policy") based on the area of quarter to which they are entitled and the unit price as set out in the Policy.

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The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation, his or her entitlement will cease and any unpaid entitlement related to past service up to the date of resignation will be paid. As at 31 December 2008, the present obligation of the provision for employee's staff housing entitlement is RMB386 million (2007 : RMB363 million).

For the year ended 31 December 2008, the staff housing benefit provided under the Staff Housing Allowance Policy amounted to RMB123 million (2007 : RMB53 million) which has been charged to the consolidated income statement.

38. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group and Company | | | |
|---|-------------------|---------------|------------------|---------------|
| | Assets | | Liabilities | |
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 31 December | | | | |
| Interest rate swaps (Note (a)) | 988 | 33,232 | 182,971 | 39,542 |
| Forward foreign exchange contracts (Note (b)) | — | 2,847 | 138,760 | 1,719 |
| Fuel option contracts (Note (c)) | 123,010 | 59,468 | 6,319,868 | 535 |
| Total | 123,998 | 95,547 | 6,641,599 | 41,796 |
| Less: current portion | | | | |
| — Interest rate swaps | — | (27,155) | (41,668) | (17,984) |
| — Forward foreign exchange contracts | — | (2,847) | (94,539) | (1,719) |
| — Fuel option contracts | (123,010) | (59,468) | (6,319,868) | (535) |
| | (123,010) | (89,470) | (6,456,075) | (20,238) |
| Non-current portion | 988 | 6,077 | 185,524 | 21,558 |

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

Notes:

(a) Interest rate swaps

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3(a)(ii)). The Group's interest rate swaps qualify for hedge accounting. The interest rate swaps entered into by the Group are generally for swapping variable rates, usually referenced to LIBOR, into fixed rates and are accounted for as cashflow hedges. Other interest rate swaps are for swapping fixed rates into variable rates and are accounted for as fair value hedges. As at 31 December 2008, the notional amount of the outstanding interest rate swap agreements was approximately US\$471 million (2007 : US\$624 million). These agreements will expire between 2009 and 2016.

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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:

| | Group | |
|--|-----------|----------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Realised (losses)/gain (recorded in finance costs) | 10,083 | 59,862 |
| Unrealised mark to market (losses)/gains | | |
| — cash flow hedges (recognised in equity) | (126,138) | (79,783) |
| — fair value hedges (recognised in the income statement) | (49,535) | (8,824) |
| | (165,590) | (28,745) |

(b) Forward foreign exchange contracts

The Group uses forward foreign exchange contracts to reduce the risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3(a)(i)). The Group's forward foreign exchange contracts qualify for hedge accounting. These contracts are generally for selling Japanese Yen and purchasing U.S. dollars at fixed exchange rates and are accounted for as cash flow hedges. Other forward foreign exchange contracts are for selling Japanese Yen and purchasing U.S. dollars at variable exchange rates and are accounted for as fair value hedges. As at 31 December 2008, the notional amount of the outstanding currency forward contracts was approximately US\$121 million (2007 : US\$33 million), which will expire between 2009 and 2017.

Realised and unrealised gains and losses arising from the valuation of these contracts have been dealt with in the income statements as follows:

| | Group | |
|--|-----------|---------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Realised (losses)/gain (recorded in finance income) | 14,759 | 17,932 |
| Unrealised mark to market (losses)/gains | | |
| — cash flow hedges (recognised in equity) | (44,222) | 1,586 |
| — fair value hedges (recognised in the income statement) | (95,666) | (3,787) |
| | (125,129) | 15,731 |

(c) Fuel option contracts

The Group enters into fuel hedging contracts to reduce the risk of changes in market oil/petroleum prices as a hedge against aircraft fuel costs. The fuel hedging contracts used by the Group are normally structured to include a combination of both put and call options which allow the Group to lock in fuel prices for specified volumes within a price range. In each hedging contract, the call options price at which the Group is effectively entitled to buy fuel will be higher than that at which the counterparty is effectively entitled to sell.

None of the fuel hedging contracts entered into by the Group in 2008 or which remained open at 31 December 2008 qualified for hedge accounting. The Group is required to account for the fair value of the difference between the spot price of fuel and the price at which the counterparties are effectively entitled to sell in future periods as unrealised mark to market losses and recognised these losses in the income statements immediately.

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

| | Group | |
|--|-------------|---------|
| | 2008 | 2007 |
| | RMB'000 | RMB'000 |
| Realised (losses)/gains (recorded in aircraft fuel) | (8,577) | 120,171 |
| Unrealised mark to market (losses)/gains (recorded in loss on fair value movements of financial derivatives) | (6,255,791) | 96,576 |
| | (6,264,368) | 216,747 |

The fair value of fuel option contracts is determined by reference to mark-to-market values provided by counterparties and independent third parties applying appropriate option valuation models (i.e. mean regression model using the Monte Carlo Simulation Process). Key parameters used in the valuation models include volatility, credit spread, long run mean and mean reverting ratio at date of valuation.

39.

SHARE CAPITAL

| | 2008 | 2007 |
|---|-----------|-----------|
| | RMB'000 | RMB'000 |
| Registered, issued and fully paid of RMB1.00 each | | |
| Circulating shares with restricted transfer held by CEA Holding and employees | 2,904,000 | 2,904,000 |
| A shares listed on The Shanghai Stock Exchange | 396,000 | 396,000 |
| H shares listed on The Stock Exchange of Hong Kong Limited | 1,566,950 | 1,566,950 |
| | 4,866,950 | 4,866,950 |

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

On 4 January 2007, the Company's share reform plan was approved by the Ministry of Commerce and implemented on 9 January 2007. In this connection, CEA Holding granted 96 million shares in total to the holders of the circulating shares and the original non-circulating shares held by CEA Holding were granted the status of listing subject to certain circulating conditions.

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| 40. | RESERVES | | | | | | |
|---|--------------------------|--|-----------------------------------|---|--|----------------------------------|------------------|
| | Group | | | | | | |
| | Share premium RMB'000 | Statutory and discretionary reserve (Note (a)) RMB'000 | Revaluation reserve RMB'000 | Capital reserve (Note (b)) RMB'000 | Hedging reserve (Note 38) RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
| At 1 January 2007, as restated | 1,006,455 | 428,808 | 23,816 | (720,057) | 53,167 | (3,621,106) | (2,828,917) |
| Unrealised loss on cashflow hedges (Note 38) | — | — | — | — | (79,783) | — | (79,783) |
| Realised gains on cashflow hedges (Note 38) | — | — | — | — | 1,586 | — | 1,586 |
| Fair value movements of available for sale investments held by associates | 22,167 | — | — | — | — | — | 22,167 |
| Profit attributable to equity holders of the Company | — | — | — | — | — | 378,568 | 378,568 |
| Adjustments to statutory and discretionary reserves | — | (428,808) | — | — | — | 428,808 | — |
| At 31 December 2007 | 1,028,622 | — | 23,816 | (720,057) | (25,030) | (2,813,730) | (2,506,379) |
| At 1 January 2008, as restated | 1,028,622 | — | 23,816 | (720,057) | (25,030) | (2,813,730) | (2,506,379) |
| Unrealised loss on cashflow hedges (Note 38) | — | — | — | — | (170,525) | — | (170,525) |
| Realised gains on cashflow hedges (Note 38) | — | — | — | — | 165 | — | 165 |
| Fair value movements of available for sale | (19,080) | — | — | — | — | — | (19,080) |

| | | | | | | | |
|--|-----------|---|--------|-----------|-----------|--------------|--------------|
| investments held by associates | | | | | | | |
| Loss attributable to equity holders of the Company | — | — | — | — | — | (15,268,532) | (15,268,532) |
| At 31 December 2008 | 1,009,542 | — | 23,816 | (720,057) | (195,390) | (18,082,262) | (17,964,351) |

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| | Company | | | | | |
|--|-----------------------------|---|---|--|----------------------------------|------------------|
| | Share premium RMB'000 | Statutory and discretionary reserve (Note (a)) RMB'000 | Capital reserve (Note (b)) RMB'000 | Hedging reserve (Note 38) RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
| At 1 January 2007, as restated | 1,006,455 | 182,336 | (720,057) | 53,167 | (3,160,413) | (2,638,512) |
| Unrealised loss on cashflow hedges (Note 38) | — | — | — | (79,783) | — | (79,783) |
| Realised gains on cashflow hedges (Note 38) | — | — | — | 1,586 | — | 1,586 |
| Adjustments to statutory and discretionary reserves | — | (182,336) | — | — | 182,336 | — |
| Profit for the year | — | — | — | — | 505,330 | 505,330 |
| At 31 December 2007 | 1,006,455 | — | (720,057) | (25,030) | (2,472,747) | (2,211,379) |
| At 1 January 2008, as restated | 1,006,455 | — | (720,057) | (25,030) | (2,472,747) | (2,211,379) |
| Unrealised loss on cashflow hedges (Note 38) | — | — | — | (170,525) | — | (170,525) |
| Realised gains on cashflow hedges (Note 38) | — | — | — | 165 | — | 165 |
| Loss for the year | — | — | — | — | (13,877,388) | (13,877,388) |
| At 31 December 2008 | 1,006,455 | — | (720,057) | (195,390) | (16,350,135) | (16,259,127) |

Notes:

(a) Statutory and Discretionary Reserves

Pursuant to the PRC regulations and the Companies' Articles of Association, each of the Group companies is required to transfer 10% of its profit for the year, as determined under the PRC Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of the Group company's registered capital. The statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in

proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Each of the Group companies is permitted to transfer 5% of its profit for the year as determined under the PRC Accounting Regulations, to a discretionary common reserve fund. The transfer to this reserve is subject to approval at shareholders' meetings.

No profit appropriation by the Company to the discretionary common reserve fund was made for the year ended 31 December 2008 (2007 : nil).

(b) Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected and the nominal amount of the Company's share capital issued in respect of a group restructuring carried out in June 1996 for the purpose of the Company's listing.

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41. NON-CURRENT ASSETS HELD FOR SALE

In December 2006, the Board of Directors passed a resolution to dispose of certain older aircrafts and related flight equipments in the forthcoming 12-months. Accordingly, these aircrafts together with related flight equipments and spare parts were classified as non-current assets held for sale as at 31 December 2006. Despite of the Company's continuing effort to locate and negotiate with potential buyers, no agreement to dispose these assets has been reached. It is management's intention to dispose these assets in the forthcoming 12-months and management is continuing to take active step to locate potential buyers of these assets. They have therefore been still classified as non-current assets held for sale as of 31 December 2008. An impairment loss of RMB235 million has been recognised in the income statement in relation to these assets with reference to the estimated market values as at the balance sheet date (Note 10(c)).

42. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

| (a) | Cash generated from operations | |
|---|--------------------------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 |
| (Loss)/gain before income tax | (15,256,009) | 377,938 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 4,755,622 | 4,694,888 |
| Gains on disposals of property, plant and equipment | (267,084) | (674) |
| Share of results of associates | (69,668) | (58,312) |
| Share of results of jointly controlled entities | (24,050) | (30,086) |
| Amortisation of lease prepayments | 25,940 | 24,847 |
| Net foreign exchange gains | (1,970,990) | (2,023,032) |
| Amortisation of deferred revenue | (19,965) | (12,594) |
| Loss/(gain) arising from fair value movements of derivative financial instruments | 6,400,992 | (96,575) |
| Consumption of flight equipment spare parts | 476,282 | 468,888 |
| Impairment provision trade and other receivables | 39,338 | 10,481 |
| Provision for post-retirement benefits | 200,603 | 170,670 |
| Provision for operating lease aircraft return condition check | 618,556 | 446,289 |
| Impairment loss | 2,976,678 | 227,456 |
| Interest income | (89,275) | (96,849) |
| Interest expenses | 2,328,147 | 1,978,550 |
| Gain on disposal of an associate and available-for-sale financial assets | (13,557) | — |
| Gain of contribution to a joint controlled entity | — | (31,620) |
| Gain on disposal of a subsidiary | — | (54,441) |
| Operating profit before working capital changes | 111,560 | 5,995,824 |

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| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Changes in working capital | | |
| Flight equipment spare parts | (529,068) | (409,392) |
| Trade receivables | 909,701 | (478,550) |
| Amount due from related companies | (223,112) | 349,897 |
| Prepayments, deposits and other receivables | (216,706) | (336,890) |
| Sales in advance of carriage | (197,331) | 319,550 |
| Trade payables and notes payables | 2,006,978 | (1,888,884) |
| Amounts due to related companies | (187,819) | 29,571 |
| Other payables and accrued expenses | 1,901,892 | (194,694) |
| Other long-term liabilities | (431,956) | (74,081) |
| Provision for operating lease aircraft return condition check | (41,448) | — |
| Staff housing allowances | (100,428) | (76,381) |
| Post-retirement benefit obligations | (90,145) | (89,227) |
| Operating lease deposits | 30,348 | (3,909) |
| | 2,830,906 | (2,852,990) |
| Cash generated from operations | 2,942,466 | 3,142,834 |

(b) Non-cash transactions

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Financing activities not affecting cash: | | |
| Finance lease obligations incurred for acquisition of aircraft | 7,964,792 | 8,395,965 |

43. COMMITMENTS

(a) Capital commitments

The Group and the Company had the following capital commitments:

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Authorised and contracted for: | | | | |
| — Aircraft, engines and flight equipment | 52,533,736 | 50,852,865 | 52,533,736 | 50,852,865 |
| — Other property, plant and equipment | 130,180 | 353,771 | 111,810 | 289,971 |

| | | | | |
|---------------------------------------|------------|------------|------------|------------|
| | 52,663,916 | 51,206,636 | 52,645,546 | 51,142,836 |
| Authorised but not contracted for: | | | | |
| — Other property, plant and equipment | 5,235,712 | 11,326,338 | 4,874,680 | 10,709,963 |
| | 5,235,712 | 11,326,338 | 4,874,680 | 10,709,963 |
| | 57,899,628 | 62,532,974 | 57,520,226 | 61,852,799 |

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Contracted expenditures for the above aircraft and flight equipment, including deposits prior to delivery, subject to future inflation increases built into the contracts and any discounts available upon delivery of the aircraft, if any, were expected to be paid as follows:

| | Group | | Company | |
|--------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Within one year | 8,852,380 | 17,127,081 | 8,852,380 | 17,127,081 |
| In the second year | 13,174,190 | 15,056,943 | 13,174,190 | 15,056,943 |
| In the third year | 9,051,539 | 13,960,033 | 9,051,539 | 13,960,033 |
| In the fourth year | 9,224,482 | 2,531,964 | 9,224,482 | 2,531,964 |
| Over four years | 12,231,145 | 2,176,844 | 12,231,145 | 2,176,844 |
| | 52,533,736 | 50,852,865 | 52,533,736 | 50,852,865 |

(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:

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Aircraft, engines and flight equipment | | | | |
| Within one year | 2,671,355 | 2,527,072 | 2,145,554 | 2,235,504 |
| In the second year | 2,330,080 | 2,331,741 | 2,008,984 | 2,124,109 |
| In the third to fifth year inclusive | 4,598,624 | 4,991,164 | 4,432,529 | 4,925,469 |
| After the fifth year | 4,100,560 | 5,341,362 | 4,028,862 | 5,341,361 |
| | 13,700,619 | 15,191,339 | 12,615,929 | 14,626,443 |
| Land and buildings | | | | |
| Within one year | 202,540 | 87,410 | 46,701 | 84,482 |
| In the second year | 124,643 | 50,683 | 21,066 | 49,363 |
| In the third to fifth year inclusive | 325,423 | 40,888 | 16,323 | 40,026 |
| After the fifth year | 2,398,361 | 29,846 | 29,276 | 29,846 |
| | 3,050,967 | 208,827 | 113,366 | 203,717 |
| | 16,751,586 | 15,400,166 | 12,729,295 | 14,830,160 |

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44.

RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which owns approximately 59.67% of the Company's shares as at 31 December 2008. The aviation industry in the PRC is administrated by the CAAC. CEA Holding and the Group is ultimately controlled by the PRC government, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "SOEs").

(a)

Related party transactions

The Group sells air tickets through sales agents and is therefore likely to have extensive transactions with other state-controlled enterprises, and the employees and their close family members of SOEs while such employees are on corporate business. These transactions are carried out on normal commercial terms that are consistently applied to all of the Group's customers. Due to the large volume and the pervasiveness of these transactions, management is unable to determine the aggregate amount of the transactions for disclosure. Therefore, retail transactions with these related parties are not disclosed herein. The Directors of the Company believe that meaningful related party disclosures on these retail transactions have been adequately made.

The other related party transactions are:

| Nature of transaction | Related party | Income/ (expense or payments) | |
|--|--|----------------------------------|-----------------|
| | | 2008 RMB'000 | 2007 RMB'000 |
| With CEA Holding or companies directly or indirectly held by CEA Holding: | | | |
| Interest income on deposits at an average rate of 0.36% per annum (2007: 0.72% per annum) | EAGF* | 30,766 | 9,717 |
| Interest expense on loans at rate of 4.87% per annum (2007: 5.42% per annum) | EAGF* | (22,267) | (33,590) |
| Ticket reservation service charges for utilisation of computer reservation system | Travel Sky Technology Limited | (241,206) | (241,161) |
| Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold | SDATC* Shanghai Tourism (HK) Co., Ltd | (610) | (9,220) |
| | | (1,696) | (6) |

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| | | | |
|--|--|-----------------------|-----------------------|
| Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment | EAIEC* | (47,257) | (34,643) |
| Repairs and maintenance expense for aircraft and engines | Wheels & Brakes STA | (64,653) (131,081) | (56,764) (100,270) |
| Supply of food and beverages | Shanghai Eastern Air Catering Co., Ltd | (267,117) | (243,895) |
| | Yunnan Eastern Air Catering Investment Co., Ltd. | (40,836) | (37,782) |
| | Xian Eastern Air Catering Investment Co., Ltd. | (36,526) | (28,780) |
| | Qingdao Eastern Air Catering Investment Co., Ltd | (27,480) | (20,101) |

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| Nature of transaction | Related party | Income/ (expense or payments) | |
|--|---------------------------------|----------------------------------|-----------------|
| | | 2008 RMB'000 | 2007 RMB'000 |
| Disposal of a subsidiary | CEA Holding | — | 461,916 |
| Disposal of a associate | CEA Holding | 32,972 | — |
| Advertising expense | CAASC | (3,595) | (14,370) |
| Automobile maintenance fee | CEA Development Co. Ltd | (23,595) | (18,574) |
| Land and building rental | CEA Holding | (55,399) | (55,399) |
| Purchase of other fixed assets | CEA Northwest Co. Ltd | — | (67,305) |
| With CAAC and its affiliates: | | | |
| Civil aviation infrastructure levies paid | CAAC | (769,849) | (781,613) |
| Aircraft insurance premiums paid through CAAC which entered into the insurance policies on behalf of the Group | CAAC | (134,176) | (136,875) |
| With other SOE: | | | |
| Take-off and landing fee charges | State-controlled airports | (4,323,382) | (4,152,888) |
| Purchase of aircraft fuel | State-controlled fuel suppliers | (14,020,301) | (11,120,186) |
| Ticket reservation service charges for utilisation of computer reservation system | Travel Sky Technology Limited | (241,206) | (241,161) |
| Interest income on deposits at an | State-controlled banks | 14,778 | 15,411 |

| | | | |
|---|---------------------------------|-------------|-------------|
| average rates of 0.36% per annum (2006: 0.72% per annum) | | | |
| Interest expense on loans at an average rate of 5.96% per annum (2007: 5.47% per annum) | State-controlled banks | (1,872,553) | (1,406,812) |
| Commission expense on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of the value of tickets sold | Other PRC airlines | (65,832) | (70,285) |
| Supply of food and beverages | Other state-control enterprises | (567,071) | (511,766) |

*EAGF is also 25% owned associate of the Group; SDATC and EAIEC are both 45% owned associates of the Group.

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| Company | (b) Balances with related companies | | | |
|--------------------------------|--|---------|-----------|-----------|
| | (i) Amounts due from related companies | | | |
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| SDATC | 9,714 | 16,378 | 9,714 | 16,378 |
| Shanghai Tourism (HK) Co., Ltd | 4,020 | 2,914 | 4,020 | 2,914 |
| EAIEC | 181,788 | 26,166 | 181,788 | 26,166 |
| China Cargo | — | — | 1,091,055 | 1,535,804 |
| CEA Wuhan | — | — | 208,928 | — |
| Other related companies | 12,767 | 19,997 | 22,836 | 37,070 |
| Total | 208,289 | 65,455 | 1,518,341 | 1,618,332 |

All the amounts due from related companies are trade in nature, interest free and payable within normal credit terms given to trade customers.

| Company | (ii) Amounts due to related companies | | | |
|--|---------------------------------------|-----------|-----------|-----------|
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| EAIEC | (241,560) | (470,349) | (182,277) | (401,178) |
| CEA Holding | (69,497) | (40,214) | (69,497) | (40,214) |
| Shanghai Eastern Airlines Catering Co. Ltd. | (46,580) | (60,718) | (46,580) | (60,718) |
| Yunnan Eastern Air Catering Investment Co., Ltd. | (665) | (488) | (665) | (488) |
| CAASC | (164) | (2,550) | (164) | (2,550) |
| CEA Northwest | — | (64,895) | — | — |
| Eastern Logistics | — | — | (134,213) | (31,503) |
| CEA Jiangsu | — | — | (157,885) | (193,193) |
| Other related companies | (54,660) | (32,379) | (104,522) | (47,578) |
| Total | (413,126) | (671,593) | (695,803) | (777,422) |

Except for amounts due to EAGF and CEA Holding, which are reimbursement in nature, all other amounts due to related companies are trade in nature, interest free and payable within normal credit terms given by trade creditors.

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(iii) Short-term deposits and short-term loans with an associate

| | Average interest rate | | Group | | Company | |
|--|-----------------------|---------|-----------|---------|---------|---------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Short-term deposits (included in Prepayments, Deposits and Other Receivables) "EAGF" | 0.4% | 0.7% | 1,202,892 | 408,151 | 427,363 | 90,793 |
| Short-term loans (included in Borrowings) "EAGF" | 4.3% | 5.3% | 295,181 | 260,351 | 295,181 | 180,351 |

(iv) State-controlled banks and other financial institutions

| | Average interest rate | | Group | | Company | |
|---|-----------------------|---------|------------|------------|------------|------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Bank deposits (included in cash and cash equivalents) | 0.4% | 0.7% | 1,762,245 | 845,719 | 1,601,059 | 630,783 |
| Long-term bank borrowings | 5.3% | 5.7% | 14,577,150 | 13,062,353 | 12,671,832 | 11,104,676 |

(c) Guarantees by holding company

As at 31 December 2008, bank loans of the Group and the Company with an aggregate amount of RMB357 million and Nil respectively (2007 : RMB1,008 million and Nil) were guaranteed by CEA Holding (Note 32).

(d) Key management compensation

| | 2008 | 2007 |
|--|---------|---------|
| | RMB'000 | RMB'000 |
| Salaries, bonus, allowances and benefits | 1,614 | 1,805 |

The Directors regard CEA Holding, a state-owned enterprise established in the PRC, as being the ultimate holding company.

46.

CONTINGENT LIABILITIES

In 2005, the family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou on 21 November 2004, sued the Company in a U.S. court for compensation. On 5 July 2007, pursuant to several conditions with which the Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non conveniens for the purpose of permitting proceedings in the PRC. On 20 February 2008, the plaintiffs filed a motion with the Superior Court of the State of California to lift the stay, but the motion was rejected by the court on 6 May 2008. The plaintiffs filed a second motion to lift the stay on 10 July 2008. On 27 August 2008, the Superior Court of the State of California rejected the motion of the plaintiffs again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an opinion on 26 February 2009, dismissing the appeal of the plaintiffs and affirming the original order. On 16 March 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and no official summons from the court has been received by the Company. The management of the Group believe that a negative outcome of the case will not have an adverse effect on the financial condition and results of operations of the Company. The Group intends to provide updates to the shareholders regarding the progress of the litigation. As at 31 December 2008, the Group was not involved in any other litigation, arbitration or claim of material importance.

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47.

POST BALANCE SHEET EVENTS

On 15 January 2009, CEA Holding (as the principal), Eastern Air Group Finance Company Limited (the “Finance Company”) (as the trustee) and the Company (as the borrower) entered into an entrusted loan agreement, pursuant to which, the Company will obtain a short-term loan of RMB5.55 billion from CEA Holding through the Finance Company. Details are set out in the Company’s announcement dated 15 January 2009.

On 19 January 2009, the Company obtained a two-year credit facility of RMB10 billion from Shanghai Pudong Development Bank.

On 13 February 2009, the Company obtained a three-year credit facility of RMB15 billion from Agricultural Bank of China.

On 26 February 2009, the Company convened an extraordinary general meeting of A and H Share Shareholders in which the special resolution in relation to the approval of the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to China Eastern Air Holding Company and the issuance of 1,437,375,000 new H Share at subscription price of approximately RMB1,437 million to CES Global Holdings (Hong Kong) Limited was passed. Details are set out in the Company’s announcement dated 10 December 2008 and its Notice of Extraordinary General Meeting and Notice of H Shareholders Class Meeting dated 8 January 2009.

On 16 March 2009, the Company obtained a three-year credit facility of RMB11 billion from Construction Bank of China.

APPENDIX II

GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

Directors, supervisors, chief executives and senior management

The interests of the Directors, supervisors, chief executives and senior management in the issued share capital of the Company as at the Latest Practicable Date were set out as follows:

| Name | Position | Number and type of shares held and nature of interest | | | Capacity in which the | |
|---------------------|--|---|--------|-----------|-----------------------------|--------------------|
| | | Personal | Family | Corporate | Total | A Shares were held |
| Liu Shaoyong | Chairman, Director | — | — | — | 0 | — |
| Li Jun | Vice-Chairman, Director | — | — | — | 0 | — |
| Ma Xulun | Director | — | — | — | 0 | — |
| Luo Chaogeng | Director | 6,600 A Shares (Note 1) | — | — | 6,600 A Shares (Note 1) | Beneficial owner |
| Luo Zhuping | Director, Company secretary | 11,616 A Shares (Note 2) | — | — | 11,616 A Shares (Note 2) | Beneficial owner |
| Hu Honggao | Independent non-executive Director | — | — | — | 0 | — |
| Wu Baiwang | Independent non-executive Director | — | — | — | 0 | — |
| Zhou Ruijin | Independent non-executive Director | — | — | — | 0 | — |
| Xie Rong | Independent non-executive Director | — | — | — | 0 | — |
| Sandy Ke-Yaw Liu | Independent non-executive Director | — | — | — | 0 | — |
| Liu Jiangbo | Chairman of the Supervisory Committee | — | — | — | 0 | — |
| Xu Zhao | Supervisor | — | — | — | 0 | — |
| Yan Taisheng | Supervisor | — | — | — | 0 | — |
| Feng Jinxiong | Supervisor | — | — | — | 0 | — |
| Liu Jiashun | Supervisor | 3,960 A Shares (Note 3) | — | — | 3,960 A Shares (Note 3) | Beneficial owner |
| Zhang Jianzhong | Vice President | — | — | — | 0 | — |
| Li Yangmin | Vice President | 3,960 A Shares (Note 3) | — | — | 3,960 A Shares (Note 3) | Beneficial owner |

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| | | | | | | |
|--------------|-------------------------|----------------------------|---|---|----------------------------|------------------|
| Fan Ru | Vice President | 3,696 A Shares (Note 4) | — | — | 3,696 A Shares (Note 4) | Beneficial owner |
| Wu Yongliang | Chief Financial Officer | 3,696 A Shares (Note 4) | — | — | 3,696 A Shares (Note 4) | Beneficial owner |

Note 1 representing approximately 0.00014% of the Company's total issued and listed A Shares, totalling : 4,737,375,000 A Shares, as at the Latest Practicable Date.

Note 2 representing approximately 0.00025% of the Company's total issued and listed A Shares, totalling : 4,737,375,000 A Shares, as at the Latest Practicable Date.

Note 3 representing approximately 0.000084% of the Company's total issued and listed A Shares, totalling : 4,737,375,000 A Shares, as at the Latest Practicable Date.

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Note 4 representing approximately 0.000078% of the Company's total issued and listed A Shares, totalling : 4,737,375,000 A Shares, as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the Company's supervisors, chief executives or members of senior management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in appendix 10 to the Listing Rules.

Each of Liu Shaoyong, Li Jun and Luo Chaogeng was as at the Latest Practicable Date a director or employee of CEA Holding, which, as disclosed below, was a company having, as at the Latest Practicable Date, an interest in the Company's shares required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial shareholders

Interests in the Company

So far as is known to the Directors, as at the Latest Practicable Date, each of the following persons, other than a Director, supervisor, chief executive or member of the Company's senior management, had an interest and/or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise interested in 5% or more of any class of the then issued share capital of the Company:

| Name of shareholder | Nature of shares interested | Number of shares interested | Company's total issued share capital | Interest As at the Latest Practicable Date | | |
|----------------------|-----------------------------|-----------------------------|--------------------------------------|---|---|---|
| | | | | Approximate percentage of shareholding in the Company's total issued A Shares | Approximate percentage of shareholding in the Company's total issued H Shares | Approximate percentage of shareholding in the Company's total issued Short position |
| CEA Holding | A Shares | 4,831,375,000 | 62.41% | 101.98% | — | — |
| CEA Holding (Note 1) | H Shares | 1,927,375,000 | 24.90% | — | 64.15% | — |
| CES Global (Note 1) | H Shares | 1,927,375,000 | 24.90% | — | 64.15% | — |

HKSCC Nominees
Limited
(Notes 2 to 3)

| | | | | | |
|----------|---------------|--------|---|--------|---|
| H Shares | 1,541,701,139 | 19.91% | — | 51.32% | — |
|----------|---------------|--------|---|--------|---|

Notes: Based on the information available to the Directors (including such information as was available on the website of the Stock Exchange) and so far as they are aware and understand, as at the Latest Practicable Date:

1. Such H Shares were held by CES Global, in the capacity of beneficial owner, which in turn is 100% held by CEA Holding.

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2. Among the 1,541,701,139 H Shares held by HKSCC Nominees Limited, 189,078,000 H Shares (representing approximately 12.07% of the Company's then total issued H Shares) were held by China National Aviation Corporation (Group) Limited in the capacity of beneficial owner, which in turn was ultimately 100% controlled by China National Aviation Holding Company.
3. Among the 1,541,701,139 H Shares held by HKSCC Nominees Limited, Barclays PLC had, through controlled corporations, an interest in an aggregate of 90,371,770 H Shares (representing approximately 5.77% of the Company's then total issued H Shares). Barclays PLC was interested in the aforesaid 90,371,770 H Shares in the manner as follows:
- a. 336,970 H Shares (representing approximately 0.02% of the Company's then total issued H Shares) were held by Barclays Global Investors Ltd in the capacity of beneficial owner, which in turn was 100% controlled by Barclays Global Investors UK Holdings Limited, which in turn was 92.3% controlled by Barclays Bank PLC, which in turn was ultimately 100% controlled by Barclays PLC;
- b. 4,790,000 H Shares (representing approximately 0.31% of the Company's then total issued H Shares) were held by Barclays Global Investors, N.A. in the capacity of beneficial owner, which in turn was 100% controlled by Barclays California Corporation, which in turn was 100% controlled by Barclays Global Investors Finance Limited, which in turn was 100% controlled by Barclays Global Investors UK Holdings Limited, which in turn was 92.3% controlled by Barclays Bank PLC, which in turn was ultimately 100% controlled by Barclays PLC; and
- c. 85,244,800 H Shares (representing approximately 5.44% of the Company's then total issued H Shares) were held by Barclays Global Fund Advisors in the capacity of beneficial owner, which in turn was 100% controlled by Barclays Global Investors, N.A., which in turn was 100% controlled by Barclays California Corporation, which in turn was 100% controlled by Barclays Global Investors Finance Limited, which in turn was 100% controlled by Barclays Global Investors UK Holdings Limited, which in turn was 92.3% controlled by Barclays Bank PLC, which in turn was ultimately 100% controlled by Barclays PLC.

Save as disclosed above and so far as the Directors are aware, as at the Latest Practicable Date, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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Interests in other members of the Group

So far as is known to the Directors, as at the Latest Practicable Date, each of the following persons, other than the Company or any of its Directors, supervisors, chief executives and members of the senior management, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the relevant member of the Group:

| Name of relevant substantial shareholder | Approximate percentage of shareholding |
|---|--|
| Company Limited) | 49% |
| (Singapore Technology Aerospace Limited) | |
| #65289; #32147; #28639; #30332; #23637; #37733; #38957; #29992; #21697; #32317; | 45% |
| Development Co., Ltd.) | |
| (Shantou Aviation Equipment Group Company) | |
| #20462; | 40% |
| ce Co., Ltd.) | |
| Aircraft Engineering Investment Ltd. | |
| #36960; #27915; #36939; #36664; #65288; #65289; #32317; | 30% |
| (China Ocean Shipping (Group) Company) | |
| #36960; #27915; #36939; #36664; #65288; #65289; #32317; | 30% |
| (China Ocean Shipping (Group) Company) | |
| #27743; #34311; #30465; #20449; #36039; #31649; #29702; | 23.89% |
| td.) | |
| (Jiangsu Provincial Guoxin Asset Management Group Co., Ltd.) | |
| #65289; | 20% |
| Co., Ltd.) | |
| (Dazhonghua Yuntong Co., Ltd.) | |
| CEA Holding | 14% |

Save as disclosed above and so far as is known to the Directors, as at the Latest Practicable Date, no other person (other than the Directors, the Company's supervisors, chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2008, being the date to which the latest published audited accounts of the Company have been made up.

Please also refer to section 2.9 of the circular of the Company dated 24 July 2009 relating to the financial status of the Group.

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GENERAL INFORMATION

4. COMPANY'S OFFICERS

Mr. Luo Zhuping, who is a holder of a Master's degree in global economics, is a Director and the secretary of the Company.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within a year without payment of any compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's business) which competes or is likely to compete either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

7. LITIGATION

In 2005, the family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou on 21 November 2004, sued the Company in a U.S. court for compensation. On 5 July 2007, pursuant to several conditions with which the Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non-conveniens for the purpose of permitting proceedings in the PRC. On 20 February 2008, the plaintiffs filed a motion with the Superior Court of the State of California to lift the stay, but the motion was rejected by the court on 6 May 2008. The plaintiffs filed a second motion to lift the stay on 10 July 2008. On 27 August 2008, the Superior Court of the State of California rejected the motion of the plaintiffs again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an opinion on 26 February 2009, dismissing the appeal of the plaintiffs and affirming the original order. On 18 August 2009, the Company received the complaint of the family members of certain victims from the Beijing No. 2 Intermediate People's Court.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any litigation or claim of material importance pending or threatened against any member of the Enlarged Group.

8. TRADING AND FINANCIAL PROSPECTS OF THE ENLARGED GROUP

Trading prospects

As an aviation enterprise which performs public service functions, the operation of the Company is linked closely to political and economic situations, both internationally and locally. As such, the operation of the Enlarged Group and of the whole sector is, to a substantial extent, subject to the risks associated with geopolitics and the outbreaks of unexpected events.

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The Company is of the view that the global economy can be expected to grow in 2009, but the rate may falter. The economic growth in East Asia continues. Factors such as international oil price, imbalance in global trading and investment and the swine flu become uncertainties in the global economic environment. China's economy is at a stage of growth, and with further system reform and opening up, the inherent impetus of economic growth and agility, spending increases gradually. In industrialized cities and town, the progress is faster, which continues to lead a faster economic growth, hence the effects of the macro-economic regulation. As such, growth in air transport demand is maintained.

The Company will seize upon the opportunity and make timely adjustments to its capacity, thereby pushing up the turnover volume in every aspect, hence its revenue in air transport.

Financial outlook

The Directors believe that the growth of China's air passenger and cargo traffic will recover in 2009 and beyond, reflecting a positive outlook for China's economic and trade growth, rising domestic consumption and growth of business and leisure travel. At the same time, industry consolidation as evidenced by the restructuring undertaken by the three major airline groups in China, i.e. Air China, China Southern Airlines and the Group), will be beneficial to the establishment of a healthy and orderly market competition situation. As a result of immense market demand, the Company expects that, Chinese carriers, including the Enlarged Group, may experience positive revenue growth in 2009 subject to the impact of high aviation fuel price.

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9. INDEBTEDNESS OF THE ENLARGED GROUP

Borrowings

At the close of business on 30 June 2009, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had the following borrowings:

| | Secured | Guaranteed | Unsecured Non- guaranteed | Total |
|---|------------|------------|---------------------------------|------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Short-term bank loans | 912,491 | 290,000 | 20,753,571 | 21,956,062 |
| Notes payable | 166,660 | — | 4,092,267 | 4,258,927 |
| Long-term bank loans | 7,471,006 | 166,903 | 13,039,097 | 20,677,006 |
| Finance lease obligations | 21,517,711 | — | — | 21,517,711 |
| Loan from an associate, Eastern Air Group Finance Co., Ltd. | — | — | 1,617,151 | 1,617,151 |
| | 30,067,868 | 456,903 | 39,502,086 | 70,026,857 |

Secured short-term bank loans were secured by bank deposits of RMB954,965,000.

Notes payable were secured by bank deposits of RMB65,332,000.

Secured long-term bank loans and other loan were secured by certain aircrafts and other fixed assets with an aggregate carrying amount of RMB13,447,174,000 and RMB170,929,000 respectively.

Finance lease obligations were secured by the related aircrafts under finance leases with an aggregate carrying amount of RMB29,492,431,000 and the relevant insurance policies and bank guarantees.

The unsecured guaranteed short-term and long-term loans were guaranteed by CEA Holding.

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Material Capital Commitments

Details of the material capital commitments of the Enlarged Group as at 30 June 2009 are set out as follows:

| | RMB'000 |
|--|------------|
| Authorised and contracted for: | |
| — Aircraft, engines and flight equipment | 70,257,958 |
| — Other property, plant and equipment | 90,681 |
| | 70,348,639 |
| Authorised but not contracted for: | |
| — Other property, plant and equipment | 4,309,011 |
| Total capital commitments | 74,657,650 |

Contracted expenditure for the above aircraft, engines and flight equipment, including deposits prior to delivery and subject to future inflation increases built into the contracts and discounts available upon delivery of the aircraft (if any), were expected to be paid as follows:

| | RMB'000 |
|--------------------|------------|
| Within 1 year | 15,213,553 |
| In the second year | 11,849,681 |
| In the third year | 18,085,249 |
| In the fourth year | 10,886,047 |
| Over four years | 14,223,428 |
| | 70,257,958 |

Contingent Liabilities

In 2005, the family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou on 21 November 2004, sued the Company in a U.S. court for compensation. On 5 July 2007, pursuant to several conditions with which the Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non conveniens for the purpose of permitting proceedings in the PRC. On 20 February 2008, the plaintiffs filed a motion with the Superior Court of the State of California to lift the stay, but the motion was rejected by the court on 6 May 2008. The plaintiffs filed a second motion to lift the stay on 10 July 2008. On 27 August 2008, the Superior Court of the State of California rejected the motion of the plaintiffs again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an opinion on 26 February 2009, dismissing the appeal of the plaintiffs and affirming the original order. On 18 August 2009, the Company received the complaint of the family members of certain victims from the Beijing No. 2 Intermediate People's Court. The management of the Group believe that a negative outcome of the case will not have an adverse effect on the financial condition and results of operations

of the Company.

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General

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have (a) any other debt securities issued and outstanding, and authorised or otherwise created but unissued; (b) any other term loans; (c) any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (d) any other mortgages or charges; or (e) any other material guarantees or contingent liabilities at the close of business on 30 June 2009.

10. SUFFICIENCY OF WORKING CAPITAL

Taking into account the financial resources available to the Enlarged Group, including internally generated funds and the available banking facilities, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements, that is at least for the next 12 months from the date of this circular, in the absence of any unforeseeable circumstances.

11. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest in any assets which have been, since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Enlarged Group.

12. MATERIAL CONTRACTS

On 9 November 2007, the Company entered into a subscription agreement with Singapore Airlines Limited ("SIA") and Lantor Investment Pte. Ltd.. Simultaneously with the entering into the Investor Subscription Agreement, CEA Holding entered into a subscription agreement with the Company. On the same date, SIA and the Company entered into a cooperation agreement and a personnel secondment agreement. Details of the above agreements are disclosed in the circular of the Company dated 23 November 2007.

On 16 November 2007, CEA Holding (as the acquirer), the Company (as the seller) and 民 華 凱 系 統 成 (East China Cares System Co., Ltd.) ("East China Cares") (as seller) entered into an equity transfer agreement pursuant to which the Company and East China Cares agreed to dispose of their entire equity interests in 投 資 (China EasternAir Investment Company Limited) ("Investment") to CEA Holding. The consideration to be received by the Company and the East China Cares are approximately RMB461.9 million and RMB5.66 million respectively. Details of the above agreements are disclosed in the announcement of the Company dated 10 November 2007.

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On 29 December 2008, CEA Holding entered into a subscription agreement with the Company, pursuant to which, CEA Holding will subscribe in cash for 1,437,375,000 new A Shares at the subscription price of RMB3.87 per A Share. On the same day, CES Global entered into another subscription agreement with the Company, pursuant to which, CES Global will subscribe in cash for 1,437,375,000 new H Shares at the subscription price of RMB1.00 per H Share. Details of the above agreements are disclosed in the circular of the Company dated 8 January 2009.

On 25 February 2009, Jin Jiang International Holdings Co., Ltd (37670;27743; 65288; 65289;) (“Jin Jiang International”) entered into a subscription agreement with Shanghai Airlines, pursuant to which, Jin Jiang International will subscribe in cash for 222,222,200 new A shares of Shanghai Airlines at the subscription price of RMB4.50 per A share of Shanghai Airlines. Details of the agreement are disclosed in the announcement of Shanghai Airlines published on the Shanghai Stock Exchange on 26 February 2009.

On 10 July 2009, CEA Holding entered into a subscription agreement with the Company, pursuant to which, CEA Holding will subscribe in cash for not more than 490,000,000 new A Shares at the subscription price of not less than RMB4.75 per A Share. On the same day, CES Global entered into another subscription agreement with the Company, pursuant to which, CES Global will subscribe in cash for not more than 490,000,000 new H Shares at the subscription price of not less than HK\$1.40 per H Share. Details of the above agreements are disclosed in the circular of the Company dated 24 July 2009.

On 10 July 2009, the Company and Shanghai Airlines entered into an absorption agreement in relation to the absorption proposal, which, if fully implemented, will involve the issue of a maximum of 1,694,838,860 A Shares by the Company to the shareholders of Shanghai Airlines on a record date to be determined and announced by the Company and Shanghai Airlines, in exchange for all the existing issued shares of Shanghai Airlines. Details of the above agreement are disclosed in the circular of the Company dated 25 August 2009.

Save as disclosed above, no material contract (not being contract entered into in the ordinary course of business) has been entered into by any member of the Enlarged Group within the two years immediately preceding the issue of this circular.

13.

DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the offices of Baker & McKenzie, 23rd Floor, One Pacific Place, 88 Queensway, Hong Kong for a period of 14 days (excluding Saturdays and Sundays) from the date of this circular:

- (1) the articles of association of the Company;
- (2) the Company’s 2007 and 2008 annual reports;
- (3) each contract set out in the paragraph headed “Material Contracts” in this Appendix;

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(4) each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts of the Company; and

(5)

the Agreement.

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