CHINA EASTERN AIRLINES CORP LTD
Form 20-F
April 24, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

OR

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

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

Commission file number 1-14550

(Exact Name of Registrant as Specified in Its Charter)

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

Kong Gang San Lu, Number 92

Shanghai, 200335

People's Republic of China

Tel: (8621) 6268-6268

Fax: (8621) 6268-6116

(Address and Contact Details of the Board Secretariat's Office)

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2012, 7,782,213,860 Ordinary Domestic Shares, par value RMB1.00 per share, were issued and outstanding, and 3,494,325,000 Ordinary H Shares par value RMB1.00 per share, were issued and outstanding. H Shares are Ordinary Shares of the Company listed on The Stock Exchange of Hong Kong Limited. Each American Depositary Share represents 50 Ordinary H Shares.

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

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

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

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

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

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

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

U.S. GAAP ¨	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other ¨

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

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

SUPPLEMENTAL INFORMATION AND EXCHANGE RATES

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

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

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

See "Item 3. Key Information — Exchange Rate Information" for details of exchange rates.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

- the impact of changes in the policies of the Civil Aviation Administration of China, or the CAAC, regarding route rights;
- the impact of the CAAC policies regarding the restructuring of the airline industry in China;

- the impact of macroeconomic fluctuations (including the fluctuations of oil prices, and interest and exchange rates);
- certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;
- our fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;
- our expansion plan of the cargo operations;
- our expansion plans, including possible acquisition of other airlines;
- our marketing plans, including the establishment of additional sales offices;
- our plan to add new pilots; and
- the impact of unusual events on our business and operations.

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

- changes in political, economic, legal and social conditions in China;
- any changes in the regulatory policies of the CAAC;
- the development of the high-speed rail network in the PRC;
- fluctuations of interest rates and foreign exchange rates;

- the availability of qualified flight personnel and airport facilities;
- the effects of competition on the demand for and price of our services;
- the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;

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- fluctuations of interest rates and foreign exchange rates;
- any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of our borrowings are denominated;
- our ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and
- general economic conditions in markets where our Company operates.

GLOSSARY OF TECHNICAL TERMS

Capacity measurements

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

Traffic measurements

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

Load factors

overall load factor	tonne-kilometers expressed as a percentage of ATK
passenger load factor	passenger-kilometers expressed as a percentage of ASK
break-even load factor	the load factor required to equate traffic revenue with our operating costs assuming that our total operating surplus is attributable to scheduled traffic

	operations
Yield and cost measurements	
passenger yield (revenue per passenger-kilometer)	revenue from passenger operations divided by passenger-kilometers
cargo yield (revenue per cargo tonne-kilometer)	revenue from cargo operations divided by cargo tonne-kilometers
average yield (revenue per total tonne-kilometer)	revenue from airline operations divided by tonne-kilometers
unit cost	operating expenses divided by ATK
Tonne	a metric ton, equivalent to 2,204.6 lbs

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected financial data from the consolidated income statements for the years ended December 31, 2008, 2009, 2010, 2011 and 2012 and the selected financial data from the balance sheets as of December 31, 2008, 2009, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards, or IFRS, as adopted by the International Accounting Standards Board, or IASB, and audited by PricewaterhouseCoopers, an independent registered public accounting firm in Hong Kong. PricewaterhouseCoopers' reports in respect of the consolidated income statements for the years ended December 31, 2010, 2011 and 2012 and the consolidated balance sheets as of December 31, 2011 and 2012 and the related footnotes are included in this Annual Report.

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

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

	Year Ended December 31,				
	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2012 RMB
	(in millions, except per share or per ADS data)				
Consolidated Income Statement Data (IFRS):					
Revenues	41,073	38,989	73,804	82,403	85,253
Other operating income	672	1,288	658	1,062	1,720
Operating expenses	(56,828)	(38,456)	(68,765)	(79,292)	(82,745)
Operating profit / (loss)	(15,083)	1,821	5,697	4,173	4,228
Finance income / (costs), net	(267)	(1,549)	(347)	561	(1,349)
Profit / (loss) before income tax	(15,256)	249	5,418	4,841	3,012
Profit / (loss) for the year attributable to the equity shareholders of the Company	(15,269)	169	4,958	4,576	2,954
Basic and fully diluted earnings / (loss) per share (2)	(3.14)	0.03	0.44	0.41	0.26
Basic and fully diluted earnings / (loss) per ADS	(313.72)	2.63	22.24	20.29	13.10

(1) Effective January 1, 2012, the pilot program for the transformation from business tax to value-added tax regarding the transportation industry and certain modern service industries has affected certain operating data in 2012. See "Item 5A. — Operating Results — 2012 Compared to 2011 — Revenues".

As at December 31, 2012, the pilot program affected our revenues (excluding tax) which decreased by RMB2,954 million, while operating expenses decreased by RMB3,132 million, and total profit increased by RMB178 million.

(2) The calculation of earnings/(loss) per share for 2008 is based on the consolidated profit/(loss) attributable to the equity shareholders of the Company and 4,866,950,000 shares outstanding. The calculation of earnings per share for 2009 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 6,436,828,000 shares outstanding. The calculation of earnings per share for 2010 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 11,149,426,000 shares outstanding. The calculation of earnings per share for 2011 and 2012 is based on consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 11,276,538,860 shares outstanding.

	2008 RMB	2009 RMB	2010 RMB	As of December 31, 2011 RMB	2012 RMB
				(in millions)	
Consolidated Balance Sheet Data (IFRS):					
Cash and cash equivalents	3,451	1,735	3,078	3,861	2,512
Net current liabilities	(43,458)	(28,648)	(27,184)	(29,679)	(35,948)
Non-current assets	62,652	64,988	91,254	101,031	111,144
Long term borrowings, including current portion	(15,628)	(16,928)	(27,373)	(30,321)	(32,856)
Obligations under finance leases, including current portion	(20,809)	(19,370)	(19,208)	(20,261)	(21,858)
Total share capital and reserves attributable to the equity shareholders of the Company	(13,097)	1,235	15,271	20,126	22,926
Non-current liabilities	(31,833)	(34,665)	(47,508)	(49,547)	(50,642)
Total assets less current liabilities	16,204	36,341	64,069	71,352	75,196

(1) The income statement and balance sheet data as of and for the years ended December 31, 2010, 2011 and 2012 include the operating results of Shanghai Airlines.

Exchange Rate Information

We present our historical consolidated financial statements in Renminbi. For the convenience of the reader, certain pricing information is presented in U.S. dollars and certain contractual and other amounts that are in Renminbi or Hong Kong dollars amounts include a U.S. dollar equivalent. Unless otherwise noted, all translations from RMB to U.S. dollars, from Hong Kong dollars to U.S. dollars, from U.S. dollars to RMB and from U.S. dollars to Hong Kong dollars in this Annual Report were made at the rate of RMB6.2301 to US$1.00 and HK$7.7507 to US$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Board on December 31, 2012. We make no representation that the Renminbi, Hong Kong dollar or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars, Hong Kong dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

On April 19, 2013, the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board were RMB6.1772=US$1.00 and HK$7.7637=US$1.00. The following table sets forth information concerning exchange rates between the RMB, Hong Kong dollar and the U.S. dollar for the periods indicated. The source of these rates is the Federal Reserve Statistical Release.

	RMB per US$1.00 (1)		HK$ per US$1.00 (1)	
	High	**Low**	**High**	**Low**
January 2011	6.6364	6.5809	7.7978	7.7683
February 2011	6.5965	6.5520	7.7957	7.7823
March 2011	6.5743	6.5483	7.8012	7.7750
April 2011	6.5477	6.4900	7.7784	7.7669
May 2011	6.5073	6.4786	7.7855	7.7652
June 2011	6.4830	6.4628	7.7976	7.7767
July 2011	6.4720	6.4360	7.7964	7.7802
August 2011	6.4401	6.3778	7.8087	7.7876
September 2011	6.3975	6.3780	7.8040	7.7830
October 2011	6.3825	6.3534	7.7884	7.7634
November 2011	6.3839	6.3400	7.7957	7.7679
December 2011	6.3733	6.2939	7.7851	7.7663
January 2012	6.3330	6.2940	7.7674	7.7538
February 2012	6.3120	6.2935	7.7559	7.7532
March 2012	6.3323	6.2981	7.7685	7.7569
April 2012	6.3123	6.2975	7.7660	7.7592
May 2012	6.3684	6.3052	7.7699	7.7583
June 2012	6.3702	6.3530	7.7610	7.7572
July 2012	6.3879	6.3487	7.7586	7.7538
August 2012	6.3738	6.3484	7.7574	7.7543
September 2012	6.3489	6.2848	7.7569	7.7510
October 2012	6.2877	6.2372	7.7549	7.7494
November 2012	6.2454	6.2221	7.7518	7.7493
December 2012	6.2502	6.2251	7.7515	7.7493
January 2013	6.2303	6.2134	7.7585	7.7503
February 2013	6.2438	6.2213	7.7580	7.7531
March 2013	6.2246	6.2105	7.7640	7.7551
April 2013 (up to April 19, 2013)	6.2078	6.1720	7.7652	7.7615

The following table sets forth the average rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of the periods indicated. For all periods prior to January 1, 2009, the exchange rate refers to the noon buying rate as reported by the Federal Reserve Bank of New York. For periods beginning on or after January 1, 2009, the exchange rate refers to the exchange rate as set forth in the G. 5A statistical release of the Federal Reserve Board.

	RMB per **US$1.00** (1)	HK$ per US$1.00
2008	6.9193	7.7814
2009	6.8307	7.7514

2010	6.7696	7.7687
2011	6.4630	7.7841
2012	6.3093	7.7569

Source: Federal Reserve Statistical Release

(1) Averages are based on daily noon buying rates for cable transfers in New York City certified for customs purposes by the Federal Reserve Bank of New York.

Selected Operating Data

The following table sets forth certain operating data of our Company for the five years ended December 31, 2012, which are not audited. All references in this Annual Report to our cargo operations, cargo statistics or cargo revenues include figures for cargo and mail.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
Selected Airline Operating Data:					
Capacity:					
ATK (millions)	11,642.2	12,505.5	17,887.4	18,662.5	19,721.4
ASK (millions)	75,964.3	84,456.4	119,450.9	127,890.8	136,724.0
AFTK (millions)	4,805.4	4,904.5	7,136.8	7,152.3	7,416.3
Traffic:					
Revenue passenger-kilometers (millions)	53,785.3	60,942.1	93,152.8	100,895.1	109,112.7
Revenue tonne-kilometers (millions)	7,219.0	7,908.7	12,599.0	13,402.1	14,406.5
Revenue freight tonne-kilometers (millions)	2,420.1	2,474.2	4,308.5	4,420.6	4,700.9
Kilometers flown (millions)	467.0	515.2	743.89	793.9	855.1
Hours flown (thousands)	755.2	838.3	1,195.1	1,288.4	1,404.5
Number of passengers carried (thousands)	37,231.5	44,043.0	64,930.4	68,725.0	73,077.1
Weight of cargo carried (millions of kilograms)	889.5	943.9	1,464.9	1,443.1	1,416.5
Average distance flown (kilometers per passenger)	1,444.6	1,383.7	1,434.7	1,468.1	1,493.1
Load Factor:					
Overall load factor (%)	62.0	63.2	70.4	71.8	73.1
Passenger load factor (%)	70.8	72.2	78.0	78.9	79.8
Yield and Cost Statistics (RMB):					
Passenger yield (passenger revenue/ passenger-kilometers)	0.62	0.54	0.63	0.68	0.65
Cargo yield (cargo revenue/cargo tonne-kilometers)	2.21	1.67	1.95	1.83	1.71
Average yield (passenger and cargo revenue/ tonne-kilometers)	5.38	4.67	5.35	5.71	5.51

Unit cost (operating expenses/ATK)	4.88	3.08	3.61	4.25	4.20

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to the PRC

Changes in the economic policies of the PRC government may materially affect our business, financial condition and results of operations.

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

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

A significant portion of our revenue and operating expenses are denominated in Renminbi, while a portion of our revenue, capital expenditures and debts are denominated in U.S. dollars and other foreign currencies. The Renminbi is currently freely convertible under the current account, which includes dividends, trade and service-related foreign currency transactions, but not under the capital account, which includes foreign direct investment, unless the prior approval of the State Administration of Foreign Exchange of the PRC (the "SAFE"), is obtained. As a foreign invested enterprise approved by the PRC Ministry of Commerce ("MOFCOM"), we can purchase foreign currency without the approval of SAFE for settlement of current account transactions, including payment of dividends, by providing commercial documents evidencing these transactions. We can also retain foreign exchange in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or to pay dividends. The relevant PRC government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign exchange to pay dividends for overseas shareholders, if any, or satisfy our foreign exchange liabilities.

Furthermore, the value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, PRC government policies, domestic and international economies, political conditions and the supply and demand of currency. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an appreciation in the value of the Renminbi against the U.S. dollar of approximately 7.0% in 2008. While there was no material appreciation of the value of Renminbi against the U.S. dollar in 2009, the value of the Renminbi against the U.S. dollar appreciated by approximately 3.0% in 2010 and by approximately 5.1% in 2011. In May 2007, the PRC government widened the daily trading band of the Renminbi against a basket of certain foreign currencies from 0.3% to 0.5%. In April 2012, the People's Bank of China (the “PBOC”) further widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi can appreciate or depreciate by 1.0% from the PBOC central parity rate, effective April 16, 2012. It is possible that the PRC government could adopt a more flexible currency policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency. Any resulting fluctuations in exchange rates as a result of such policy changes may have an adverse effect on our financial condition and results of operations.

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

Inflation rates within the PRC have been on a sharp uptrend in recent years. The PRC government has undertaken numerous monetary tightening measures, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down economic excessive growth and control price rises. Increasing inflationary rates are due to many factors beyond our control, such as rising food prices, rising production and labor costs, high lending levels, PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. PRC inflation rates have been in a general downtrend after peaking in the middle of 2011, and increased to 3.6% as of March 2012. The national consumer price index increased by 2.6% in 2012 compared to 2011. We cannot assure you that inflation rates will not continue to increase in the future. If inflation rates rise beyond our expectations, the costs of our business operations may become significantly higher than we have anticipated, and we may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increasing operating costs. As a result, further inflationary pressures within the PRC may have a material adverse effect on our business, financial condition and results of operations, as well as our liquidity and profitability.

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

Prior to January 1, 2008, except for a number of preferential tax treatment schemes available to various enterprises, industries and locations, business enterprises in China were subject to an enterprise income tax rate of 33% under the relevant *PRC Enterprise Income Tax Law*. On March 16, 2007, China passed a new enterprise income tax law, or the EIT Law, which took effect on January 1, 2008. The EIT Law imposes a uniform income tax rate of 25% for domestic enterprises and foreign invested enterprises. Business enterprises enjoying preferential tax treatment that was extended for a fixed term prior to January 1, 2008 will still be entitled to such treatment until such fixed term expires. Certain of our subsidiaries are entitled to preferential tax treatment, allowing us to enjoy a lower effective tax rate that would not otherwise be available to us. Since January 1, 2010, our revenue from the provision of international transportation services have been exempted from business tax, in accordance with a notice jointly issued by the PRC finance and tax authorities. To the extent that there are any withdrawals of, or changes in, our preferential tax treatment or tax exemptions from which we benefit, or increases in the applicable effective tax rate, our tax liability may increase correspondingly.

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

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protection afforded to foreign investment in China. However, the interpretation and enforcement of some of these laws, regulations and other legal requirements involve uncertainties that may limit the legal protection available to investors. Such uncertainties arise as the legal system in the PRC is continuing to evolve. Even where adequate laws exist in the PRC, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited as reference but have limited roles as precedents. As such, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention. We have full or majority board control over the management and operation of all of our subsidiaries established in the PRC. The control over these PRC entities and the exercise of shareholder rights are subject to their respective articles of association and PRC laws applicable to foreign-invested enterprises in the PRC, which may be different from the laws of other developed jurisdictions.

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

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Auditors of companies that are registered with the US Securities and Exchange Commission and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the United States Public Company Accounting Oversight Board (the "PCAOB") and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards in connection with their audits of financial statements filed with the SEC. Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditor's work related to our operations in China is not currently inspected by the PCAOB.

This lack of PCAOB inspections of audit work performed in China prevents the PCAOB from regularly evaluating audit work of any auditors that was performed in China including that performed by our auditors. As a result, investors are deprived of the full benefits of PCAOB inspections of auditors.

The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections on all of their work. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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

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

China Eastern Airlines has not been and is not currently the subject of any SEC investigations, nor are we involved in the proceedings brought by the SEC against these accounting firms. However, if the SEC is successful in the proceedings against these accounting firms, the independent registered public accounting firm, which has had a substantial role in the audit of our Company, could lose temporarily or permanently the ability to practice before the SEC. While we cannot predict the outcome of SEC proceedings, if these accounting firms were denied, temporarily or permanently, the ability to practice before the SEC, and we are unable to find timely another registered public accounting firm which can perform such substantial auditing role of our Company, our financial statements could be determined to not be in compliance with the requirements for financial statements of public companies registered under the Exchange Act. Such a determination could have a material adverse effect on our Company's reputation and share price of the ADSs. In extreme circumstances where we are unable to rectify this situation, our ADSs could ultimately be delisted from the New York Stock Exchange or we could be required to withdraw our registration with the SEC, or both, which would effectively terminate the trading of our ADSs in the United States.

Risks Relating to the Aviation Industry

Our business is subject to extensive government regulation.

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

- route allocation;
- pricing of domestic airfares;
- the administration of air traffic control systems and certain airports;
- jet fuel pricing;
- air carrier certifications and air operator certification; and

· aircraft registration and aircraft airworthiness certification.

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

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

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of domestic and global economies. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. In 2008 and 2009, the economies of the United States, Europe and certain countries in Asia experienced a severe and prolonged recession and China experienced a slowdown in overall economic growth, which led to a reduction in economic activity. As a result, we continued to experience significantly weaker demand for air travel, especially internationally, in 2009. To respond to this external environment, we reduced our international flights and reallocated our capacity by focusing more on the domestic market.

Although international air travel generally recovered in 2010 to 2011 due to the gradual global economic recovery, ongoing events in 2012 such as the continued instability of European financial markets and sovereign debt crisis in the Euro Zone, as well as the continued political instability and regional turmoil disputes in the Middle East, may continue to materially and adversely affect economic activity and financial markets, which would have an overall effect on international air travel, and would also weaken demand for air travel to and from those areas.

Furthermore, the risk remains that the global economy, including the PRC economy, may continue to suffer from the continued effects of the global recession and the PRC government may have to readjust its macroeconomic control measures accordingly, causing the growth or demand for our air transport services to slow down, which may negatively affect our business, financial condition and results of operations.

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

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

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

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

The aviation industry is characterized by annual high and low travel seasons. Our operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for our flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. As a result, our results tend to be volatile and subject to rapid and unexpected change.

We expect to face substantial competition from the rapid development of the Chinese rail network.

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

Limitations on foreign ownership of PRC airline companies may affect our access to funding in the international equity capital markets or pursuing business opportunities.

The current CAAC policies limit foreign ownership in a PRC airline. Under these limits, non-PRC residents and Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a PRC airline company. As of December 31, 2012, approximately 30.99% of our total outstanding shares were held by non-PRC, Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). As a result, our access to funding in the international equity capital markets may be limited. This restriction may also limit the opportunities available to our Company to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. We cannot assure you that the CAAC will increase these limits in the near future or at all.

Any jet fuel shortages or any increase in domestic or international jet fuel prices may materially and adversely affect our financial condition and results of operations.

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

From 2011 to 2012, our fuel expenses increased by 2.2%, partially as a result of the expansion of our scale of operations, an increase of 2.1% in the average weighted price of jet fuel in 2012 compared to 2011 and our implementation of the policy of transformation from business tax to value-added tax in 2012. Jet fuel prices were volatile in 2011 and into 2012, with heightened political tensions and continued political instability and turmoil in certain Middle Eastern countries. While there was a slight increase during the first quarter of 2012, fuel prices began decreasing and reached its lowest point in July 2012 since January 2012. However, from August to October, fuel prices gradually returned to the same price level as in the first quarter of 2012. In addition, the NDRC has adjusted gasoline and diesel prices in China from time to time, taking into account changes in international oil prices, thereby affecting aviation fuel prices. As such, we cannot assure you that jet fuel prices will not further fluctuate in the future. Due to the highly competitive nature of the airline industry, we may be unable to fully or effectively pass on to our customers any increased jet fuel costs we may encounter in the future.

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

In recent years, regulatory authorities in China and other countries have issued a number of directives and other regulations to address, among other things, aircraft noise and aircraft engine emissions, the use and handling of hazardous materials, aircraft age and environmental contamination remedial clean-up measures. These requirements impose high fees, taxes and substantial ongoing compliance costs on airlines, particularly as new aircraft brought into service will have to meet the environmental requirements during their entire service life.

We have significant expenditures with respect to environmental compliance, which may affect our operations and financial condition. For example, we implemented a low-carbon emissions scheme, through which over 90% of our planes are flying in accordance with the scheme, which aligns with our environmentally-friendly growth strategy to minimize the environmental impact of our operations. We expedited the application of new civil aviation technologies, continuously focused on the development of renewable resources and concentrated on the invention and application of new technologies and applications to achieve “greener” flying. We are working with China National Petroleum Corporation (“CNPC”) to conduct experimental research on bio-fuels, which is being developed as a possible alternative to kerosene jet fuel and could lead to reduced carbon dioxide emissions of 30%. However, these measures have resulted in significant costs and expenditures. We expect to continue to incur significant costs and expenditures on an ongoing basis to comply with environmental regulations, which could restrict our ability to modify or expand facilities or continue operations, or could require us to install additional costly pollution control equipment.

We operate in a highly competitive industry.

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

Risks Relating to the Company

We utilize fuel hedging arrangements which may result in losses.

Fuel costs constitute a significant portion of our operating costs and, in 2012, accounted for approximately 36.1% of our total operating costs. Foreign fuel prices were mainly affected by supply and demand dynamics in the global market, while domestic jet fuel prices are primarily controlled by PRC government authorities such as the NDRC and CAAC. We generally alleviate the pressure from the rise in operating costs arising from the increase in aviation fuel by imposing fuel surcharges which, however, are subject to government regulations. In order to control fuel costs, we also enter into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel during previous years.

In the beginning of 2009, the PRC government required prior approval from the PRC government before we can enter into fuel hedging contracts. In October 2011, we have obtained approval from the PRC government to allow us to enter into overseas fuel hedging contracts. For the year ended December 31, 2011, we hedged 17.0% of our annual fuel consumption. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant declines in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. In addition, where we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs. All crude oil option contracts signed in past years were settled by December 31, 2012.

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

We have a substantial amount of debt, lease and other obligations, and will continue to have a substantial amount of debt, lease and other obligations in the future. During a period of time between the end of 2008 and April 2009, the amount of our total liabilities exceeded our total assets. In 2012, we added a total of 31 aircraft to our fleet, by purchase or finance lease (excluding operating lease), including five A321 aircraft, ten A320 aircraft, six A330-200 aircraft, seven A319 aircraft, two B737-700 aircraft and one B737-800 aircraft. See the section headed "Item 4. Information on the Company — Property, Plant and Equipment — Fleet." As of December 31, 2012, our total liabilities were RMB99,265.2 million and our accumulated losses were RMB5,426.1 million. As of the same date, our current liabilities exceeded our current assets by RMB35,948.2 million. Our total bank borrowings amounted to RMB45,736.1 million and among which our short-term bank loans and short-term debentures outstanding totaled RMB12,880.0 million as of December 31, 2012. Our substantial indebtedness and other obligations could materially and adversely affect our business and operations, including requiring us to dedicate additional cash flow from operations to the payment of principal and interest on indebtedness, thereby reducing the funds available for operations, maintenance and service improvements and future business opportunities, increasing our vulnerability to economic recessions, reducing our flexibility in responding to changing business and economic conditions, placing us at a disadvantage when compared to competitors that have less debt, limiting our ability to arrange for additional financing for working capital, capital expenditures and other general corporate purposes, at all or on terms that are acceptable to us and limiting our ability to satisfy payment of our existing indebtedness and other obligations under our indebtedness.

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

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

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

We require significant amounts of external financing to meet our capital commitments for acquiring and upgrading aircraft and flight equipment and for other general corporate needs. As of December 31, 2012, we had total credit facilities of RMB41.2 billion from various banks, of which credit facilities of RMB27.1 billion are not utilized. We expect to roll over these bank facilities in future years. In addition, we generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained guarantees from Chinese banks in respect of payments under our foreign loan and capital lease obligations. However, we cannot assure you that we will be able to roll over our bank facilities or continue to obtain bank guarantees in the future. The unavailability of credit facilities or guarantees from Chinese banks or the increased cost of such guarantees may materially and adversely affect our ability to borrow additional funds or enter into international aircraft lease financings or other additional financing on acceptable terms. Although we have secured financing for our aircraft delivered in 2012, we are still in the process of obtaining financing for some aircraft we have scheduled for delivery in future years. In addition, if we are not able to arrange financing for our aircraft on order, we may seek to defer aircraft deliveries or use cash from operating or other sources to acquire the aircraft.

Our ability to obtain financing may also be impaired by our financial position, our leverage and our credit rating. In addition, factors beyond our control, such as recent global market and economic conditions, volatile oil prices, and the tightening of credit markets may result in a diminished availability of financing and increased volatility in credit and equity markets, which may materially adversely affect our ability to secure financing at reasonable costs or at all. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to expand our operations, purchase new aircraft, pursue business opportunities we believe to be desirable, withstand a continuing or future downturn in our business, or respond to increased competition or changing economic conditions may be impaired. We have and in the future will likely continue to have substantial debts. As a result, the interest cost associated with these debts might impair our future profitability and cause our earnings to be subject to a higher degree of volatility.

We are subject to exchange rate fluctuation risk.

We operate our business in many countries and territories. We generate revenue in different currencies, and our foreign currency liabilities are typically much higher than our foreign currency assets. Our purchases and leases of aircraft are mainly priced and settled in currencies such as U.S. dollars. Fluctuations in exchange rates will affect our costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. As of December 31, 2012, our total interest-bearing liabilities denominated in foreign currencies converted to Renminbi amounted to RMB53,767 million, of which the U.S. dollar liabilities accounted for 93.66%. Therefore, in circumstances with large fluctuations in exchange rates, the exchange loss arising on the translation of foreign currency denominated liabilities will be greater, which in turn affects our profitability and development. We usually use hedging contracts for foreign currencies to reduce the risks in exchange rates for foreign currency revenue from ticket sales and expenses which are to be paid in foreign currencies. Foreign currency hedging mainly involves the sales of Japanese Yen or the purchase of U.S. dollars at fixed exchange rates. As of December 31, 2012, foreign currency hedging contracts held by us which are still open amounted to a notional amount of US$58 million (December 31, 2011: US$46 million), which will expire between 2013 and 2017.

Our Group recorded an increase in net exchange gains during the reporting period. As of December 31, 2011 and 2012, our Group’s exchange gains were RMB1,872 million and RMB148 million, respectively. As a result of the large value of existing net foreign currency liabilities denominated in U.S. dollars, the Group’s results will be adversely affected if the Renminbi depreciates against the U.S. dollar or the rate of appreciation of the Renminbi against the U.S. dollar decreases in the future. Our foreign exchange fluctuation risks are also subject to other factors beyond our control. See "Item 3D. Risk Factors - Risks Relating to the PRC - Foreign exchange regulations in the PRC may result in fluctuations of the Renminbi and affect our ability to pay any dividends or to satisfy our foreign exchange liabilities."

We are subject to interest rate fluctuation risk.

Our total interest-bearing liabilities (including long-term and short-term loans and finance leases payable) as of December 31, 2011 and 2012 were RMB62,035 million and RMB67,594 million, respectively, of which short-term liabilities accounted for 33.3% and 37.4%, respectively, and long-term liabilities accounted for 66.7% and 62.6%, respectively. A portion of the long-term interest-bearing liabilities carried variable interest rates. Both our variable and fixed rate obligations were affected by fluctuations in current market interest rates.

Our interest-bearing liabilities were mainly denominated in U.S. dollars and Renminbi. As of December 31, 2011 and 2012, our liabilities denominated in U.S. dollars accounted for 69.1% and 74.5%, respectively, of our total liabilities, while liabilities denominated in Renminbi accounted for 28.8% and 20.5%, respectively, of our total liabilities. Fluctuations in U.S. dollar and Renminbi interest rates have significantly affected our financing costs. A substantial majority of our borrowings denominated in Renminbi are linked to benchmark five-year lending rates published by the PBOC. From April 2006 to December 2007, the PBOC raised the benchmark five-year lending rate seven times from 6.39% to 7.83%. Beginning in September 2008, the PBOC decreased the benchmark five-year lending rate five times from 7.83% in September 2008 to 5.94% in December 2008. Since then, the PBOC has raised the benchmark five-year lending rate five times from 5.94% to 7.05% in July 2011, but was reduced twice to 6.55% in July 2012. A substantial majority of our borrowings denominated in U.S. dollars are linked to floating LIBOR rates which decreased overall in 2011 and increased overall in 2012. The relevant lending rates may further increase in the future as a result of reasons beyond our control, and may adversely affect our business, prospects, cash flows, financial condition and results of operations. In addition, we expect to issue bonds and notes or enter into additional loan agreements and aircraft leases in the future to fund our operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates.

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

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

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

As a result of the events of September 11, 2001, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events, or war-risk coverage. At the same time, they have significantly increased the premiums for such coverage, as well as for aviation insurance in general. In response to the reduced insurance coverage from aviation insurers, the PRC government has provided insurance coverage to PRC airlines for third party war liability claims. Such insurance provided by the government is subject to annual review and approval by the government. We renew our insurance policies on a yearly basis. However, if the insurance carriers further reduce the amount of insurance coverage available or increase the premium for such coverage when we renew our insurance coverage and/or if the PRC government declines to renew our insurance coverage, our financial condition and results of operations may be materially and adversely affected.

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

We may from time to time expand our business through acquisitions of airline companies or airline-related businesses. For example, we entered into an agreement with Shanghai Airlines Co., Ltd. (“Shanghai Airlines”) on July 10, 2009 to issue a maximum of 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. The acquisition price was RMB9,118 million, which was determined based on the quoted market price of our shares issued as of the date nearest to the acquisition date, with adjustments to reflect specific restrictions to certain shares that were issued. On January 28, 2010, we completed the exchange of 1,694,838,860 A Shares for all existing issued shares of Shanghai Airlines. In addition, on December 20, 2010, our subsidiary, China Cargo Airlines, entered into separate acquisition agreements with Great Wall Airlines and Shanghai Cargo Airlines to acquire each carrier’s cargo business and related assets. China Cargo Airlines also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. These acquisitions and the acquisition of Great Wall Airlines have obtained the approval from CAAC, NDRC, and MOFCOM, and were completed on June 1, 2011. In addition, we entered into an equity transfer agreement on August 22, 2012 with our controlling shareholder, CEA Holding, by which we acquired the remaining 20% of the equity interest in China United Airlines Co., Ltd. (“China United Airlines”) for a consideration of RMB83.95 million (the "China United Airlines Acquisition") from CEA Holding. China United Airlines primarily provides domestic passenger and freight air transportation services, and is now a wholly-owned subsidiary of our Company.

We are devoting significant resources to the integration of our operations in order to achieve the anticipated synergies and benefits of the absorption and acquisitions mentioned above. See “Item 4. Information on the Company” for details. However, such acquisitions involve uncertainties and a number of risks, including:

- difficulty with integrating the assets, operations and technologies of the acquired airline companies or airline-related businesses, including their employees, corporate cultures, managerial systems, processes and procedures and management information systems and services;

- complying with the laws, regulations and policies that are applicable to the acquired businesses;

- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airline companies or airline-related businesses;

- managing relationships with employees, customers and business partners during the course of integration of new businesses;

- attracting, training and motivating members of our management and workforce;

- accessing our debt, equity or other capital resources to fund acquisitions, which may divert financial resources otherwise available for other purposes;

- diverting significant management attention and resources from our other businesses;

- strengthening our operational, financial and management controls, particularly those of our newly acquired assets and subsidiaries, to maintain the reliability of our reporting processes;

- difficulty with exercising control and supervision over the newly acquired operations, including failure to implement and communicate our safety management procedures resulting in additional safety hazards and risks;

- increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airline companies or airline-related businesses; and

- the risk that any such acquisitions may not complete due to failure to obtain the required government approvals.

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

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

On March 23, 2012, we entered into a binding memorandum of understanding (the "MOU") with Jetstar Airways Pty Limited, a wholly owned subsidiary of Qantas Airlines ("Jetstar Airways"), to establish a joint venture that consists of a new low-cost airline to be based in Hong Kong, Jetstar Hong Kong Airways ("Jetstar Hong Kong"). We and Jetstar Airways have made equal initial capital contributions of US$57.5 million each, and Jetstar Hong Kong will have a total initial capital of US$115 million. Depending on certain terms and conditions, we and Jetstar Airways will equally contribute capital amounts to increase the capital of Jetstar Hong Kong to US$198 million. Under the terms of the MOU, we and Jetstar Airways will have equal equity interests in Jetstar Hong Kong. On August 24, 2012, Eastern Air Overseas (Hong Kong) Corporation Limited ("EAO") (a wholly owned Hong Kong-based subsidiary of the Company) entered into a shareholders' agreement (the "Shareholders' Agreement") with Jetstar International Group Holdings Co., Limited ("JIGH"), a wholly owned Hong Kong-based subsidiary of Qantas Airlines, pursuant to which EAO and JIGH formally agreed to establish Jetstar Hong Kong. In September 2012, Jetstar Hong Kong obtained the Certificate of Incorporation in Hong Kong.

However, the establishment of Jetstar Hong Kong remains subject to the execution of certain agreements and the receipt of other relevant regulatory and governmental approvals. As such, we cannot assure you that we and Jetstar Airways will proceed, or will be able to execute such agreements and obtain such approvals and form Jetstar Hong Kong within the timeframe contemplated by the MOU. In addition, Jetstar Hong Kong may not be able to secure the relevant licenses and approvals for its operations, or which are necessary for it to commence operations.

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

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

We cannot assure you that we will be able to complete these tasks in a timely manner, within the expected budget, or at all. Failure to do so could result in a material adverse effect on the business, financial condition and reputation of Jetstar Hong Kong and possibly our own. In addition, given the intended geographic coverage of Jetstar Hong Kong, overlapping coverage and competition on some routes may occur, which could affect our market share on certain routes. In addition, there is intense competition in the PRC from existing carriers, who generally service the same routes that are contemplated for Jetstar Hong Kong. We cannot assure you that Jetstar Hong Kong will be able to adequately compete against these existing carriers, which may have better brand recognition, financial resources, developed route networks, fares and product offerings.

Furthermore, we do not have experience operating in the low-cost market and may therefore be required to rely on our joint venture partner, Jetstar Airways, for its expertise, experience and knowledge with respect to the daily operations of a low-cost carrier. The overall success of this venture is uncertain, and we cannot assure you that Jetstar Hong Kong will be profitable or successful or that its results of operations will not materially adversely affect our results of operations and financial condition.

We may be unable to retain key management personnel or pilots.

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

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

Most of the major airline companies in China are currently majority-owned either by the central government of China or by provincial or municipal governments in China. CEA Holding currently holds directly or indirectly 59.93% of our Company's equity interests on behalf of the PRC government. As a result, CEA Holding could potentially elect the majority of our Board of Directors and otherwise be able to control us. CEA Holding also has sufficient voting control to effect transactions without the concurrence of our minority shareholders. The interests of the PRC government as the ultimate controlling person of our Company and most of the other major PRC airlines could conflict with the interests of our minority shareholders. Although the CAAC currently has a policy of equal treatment of all PRC airlines, we cannot assure you that the CAAC will not favor other PRC airlines over our Company.

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

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

We engage in related party transactions, which may result in conflict of interests.

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

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

We are required under relevant United States securities rules and regulations to disclose in the reports that we file or submit under the Exchange Act to the United States Securities and Exchange Commission, including our annual report on Form 20-F, a management report assessing the effectiveness of our internal control over financial reporting as of the end of the fiscal year. Our registered public accounting firm is also required to provide an attestation report on the effectiveness of our internal controls over financial reporting. Our management concluded that our internal controls over financial reporting were effective as of December 31, 2012. However, we may discover other deficiencies or material weaknesses in the course of our future evaluation of our internal controls over financial reporting and we may be unable to address and rectify such deficiencies in a timely manner. Any failure to maintain effective internal controls over financial reporting could lead to a decline in investor confidence in the reliability of our financial statements, thereby adversely affecting our business, operations, and reputation, including negatively affecting our market performance in the securities markets and decreasing potential opportunities to obtain financing in the capital markets.

As part of our business strategy, we have adopted various measures for the internationalization of our business and to enhance our competitiveness in the international long-distance flight routes. Due to the differences in certain legal and market environments, we have encountered certain challenges during the course of developing our overseas business. We have also discovered that an individual overseas sales department had certain deficiencies in implementing its internal controls. We have already adopted and will continue to implement measures in order to enhance the internal control of our overseas offices and to ensure the continued development of our overseas business.

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

On November 21, 2004, a CRJ-200 Bombardier-supplied aircraft then owned and operated by China Eastern Air Yunnan Company, or CEA Yunnan, crashed shortly after leaving Baotou city in the Inner Mongolia Autonomous Region. All 53 people aboard died in the aircraft accident. In 2005, family members of the deceased sued, among other defendants, our Company in a U.S. court for compensation, the amount of which had not been determined. In July 2007, the Superior Court of the State of California ordered the action stayed on the grounds of *forum non conveniens* in order to permit proceedings in the PRC. In February 2009, the Court of Appeal of California dismissed the plaintiffs' appeal and affirmed the original order. On March 16, 2009, the plaintiffs sued the Company in the Beijing No. 2 Intermediate People's Court. Legal documents including summons, prosecution notifications and others have been served on the Company, and trial began on October 10, 2012. We cannot assure you that the court will rule in favor of our Company with respect to the procedure or substance of the litigation, or what amount of damages may be assessed against us should the court find in favor of the plaintiffs.

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

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

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

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

Any adverse public health developments, including SARS, avian flu, or influenza A (H1N1), or the occurrence of natural disasters may, among other things, lead to travel restrictions and reduced levels of economic activity in the affected areas, which may in turn significantly reduce demand for our services and have a material adverse effect on our financial condition and results of operations.

Adverse public health epidemics or pandemics could disrupt businesses and the national economies of China and other countries where we do business. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volumes and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have encountered incidents of the H5N1 strain of avian flu, many of which have resulted in fatalities. In addition, outbreaks of, and sporadic human infection with, influenza A (H1N1) in 2009, a highly contagious acute respiratory disease, were reported in Mexico and an increasing number of countries around the world, some cases resulting in fatalities. In addition, in April 2013, there has been an ongoing outbreak of the H7N9 strain of avian flu, which has largely been centered in eastern China, and has resulted in fatalities in that region, including Shanghai. We are unable to predict the potential impact, if any, that the outbreak of influenza A (H1N1) or any other serious contagious disease or the effects of another outbreak of SARS or any strain of avian flu may have on our business.

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

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

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

Item 4. Information on the Company

A. History and Development of the Company

Our registered office is located at 66 Airport Street, Pudong International Airport, Shanghai, China, 201202. Our principal executive office and mailing address is Kong Gang San Lu, Number 92, Shanghai, 200335, China. The telephone number of our principal executive office is (86-21) 6268-6268 and the fax number for the Board Secretariat's office is (86-21) 6268-6116. We currently do not have an agent for service of process in the United States.

Our Company was established on April 14, 1995 under the laws of China as a company limited by shares in connection with the restructuring of our predecessor and our initial public offering. Our predecessor was one of the six original airlines established in 1988 as part of the decentralization of the airline industry in China undertaken in connection with China's overall economic reform efforts. Prior to 1988, the CAAC was responsible for all aspects of civil aviation in China, including the regulation and operation of China's airlines and airports. In connection with our initial public offering, our predecessor was restructured into two separate legal entities, our Company and EA Group. According to the restructuring arrangement, by operation of law, our Company succeeded to substantially all of the assets and liabilities relating to the airline business of our predecessor. EA Group succeeded to our predecessor's assets and liabilities that do not directly relate to the airline operations and do not compete with our businesses. Assets transferred to EA Group included our predecessor's equity interests in companies engaged in import and export, real estate, advertising, in-flight catering, tourism and certain other businesses. In connection with the restructuring, we entered into various agreements with EA Group and its subsidiaries for the provision of certain services to our Company. CEA Holding assumed the rights and liabilities of EA Group under these agreements after it was formed by merging EA Group, Yunnan Airlines Company and China Northwest Airlines Company in October 2002. See "Item 7. Major Shareholders and Related Party Transactions" for more details. The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of April 20, 2013:

In February 1997, we completed our initial public offering of 1,566,950,000 ordinary H Shares, par value RMB1.00 per share, and listed our ordinary H Shares on The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange, and American Depositary Shares, or ADSs, representing our H Shares, on the New York Stock Exchange. In October 1997, we completed a public offering of 300,000,000 new ordinary domestic shares in the form of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. H Shares are our ordinary shares listed on the Hong Kong Stock Exchange, and A Shares are our ordinary shares listed on the Shanghai Stock Exchange. Our H Shares and A Shares are identical in respect of all rights and preferences, except that the listed A Shares may only be held by Chinese domestic investors and certain qualified foreign institutional investors. For information regarding our share capital structure, see "Item 10.B Memorandum and Articles of Association – Description of Shares." In addition, dividends on the A Shares are payable in Renminbi.

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

In August 2002, our Company, jointly with Wuhan Municipal State-owned Assets Management Committee Office and two other independent third parties, established China Eastern Airlines Wuhan Limited, or CEA Wuhan, in which our Company held a 40% equity interest. CEA Wuhan's operating results were consolidated with ours from January 2006, when we obtained control of CEA Wuhan. In March 2006, we completed our acquisition of a 38% equity interest and a 18% equity interest in CEA Wuhan from Wuhan Municipal State-owned Assets Supervision and Administration Committee and Shanghai Junyao Aviation Investment Company Limited, respectively, for an aggregate consideration of approximately RMB418 million. In 2012, the existed shareholders of CEA Wuhan and certain new shareholders decided to increase the registered capital of CEA Wuhan from RMB600 million to RMB1,750 million. As of December 31, 2012, we contributed capital of RMB525 million in cash, among which RMB237 million was recognized as registered capital and RMB288 million was credited to the share premium of CEA Wuhan; and the other investors have contributed capital of RMB300 million, among which RMB288 million was recognized as registered capital and RMB12 million was recognized as share premium of CEA Wuhan. Upon completion of aforementioned capital injections, our share percentage in CEA Wuhan will be 60%. CEA Wuhan primarily serves the market in Central China.

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Pursuant to the CAAC's airline industry restructuring plan, EA Group merged with Yunnan Airlines Company and China Northwest Airlines Company and formed CEA Holding in October 2002. Yunnan Airlines Company and China Northwest Airlines Company were restructured as wholly-owned subsidiaries of CEA Holding after the merger and renamed as China Eastern Air Yunnan Company, or CEA Yunnan, and China Eastern Air Northwest Company, or CEA Northwest, respectively. CEA Northwest is based in Xi'an, Shaanxi Province in China and serves primarily the southwestern region of China.

In order to further expand our business and enhance our market competitiveness, we acquired from CEA Holding certain selected assets and liabilities relating to the aviation businesses of CEA Yunnan and CEA Northwest on May 12, 2005. The certain selected assets acquired by our Company included aircraft, engines and aviation equipment and facilities, certain employees and operating contracts, and other fixed and current assets (whether owned or leased assets). We assumed and took over the aviation operations and businesses previously carried out by CEA Yunnan and CEA Northwest in accordance with the Acquisition Agreement. The air routes of CEA Yunnan and CEA Northwest were also injected into our Company with such assets and liabilities.

On March 14, 2006, we entered into an official sponsorship agreement with the Bureau of 2010 Expo Shanghai (the "Bureau"), which designated our Company as the exclusive airline passenger carrier in China to sponsor the 2010 Shanghai Expo. Pursuant to the agreement, we were entitled to a number of rights, including the use of the Bureau's logos and trademarks and the slogan "Better City, Better Life", and priority to purchase advertising space at the Expo site. We were also able to enjoy the privileges of being a market development participant of the World Expo.

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

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

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

On July 26, 2010, the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province, or Yunnan SASAC, entered into an agreement with our Company to jointly establish Eastern Airlines Yunnan Limited Corporation, or EA Yunnan. We will contribute 65% of the registered capital of EA Yunnan, with the remaining 35% contributed by Yunnan SASAC. As of December 31, 2012, we have completed our capital contribution while Yunnan SASAC has not yet completed its capital contribtion. EA Yunnan will focus on the provision of general civil aviation transportation and maintenance services. We believe that EA Yunnan will allow us to further enhance the existing provision of aviation services in Yunnan Province and surrounding regions in eastern China, and enhance our overall competitiveness and business development in the area.

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

On August 11, 2011, our wholly-owned subsidiary Eastern Air Overseas (Hong Kong) Corporation Limited issued offshore CNY-denominated bonds in an amount of CNY2.5 billion at 4% due 2014 and are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Our Company guaranteed the bond issue.

On March 23, 2012, we entered into a binding MOU with Jetstar Airways, a wholly owned subsidiary of Qantas, to establish a joint venture that will consist of a new low-cost airline to be based in Hong Kong, Jetstar Airways. On August 24, 2012, EAO, a wholly owned Hong Kong-based subsidiary of the Company, entered into a Shareholders' Agreement with JIGH, a wholly owned Hong Kong-based subsidiary of Qantas Airlines, pursuant to which EAO and JIGH formally agreed to establish Jetstar Hong Kong. We and Jetstar Airways have made equal initial capital contributions of US$57.5 million each, and the joint venture, Jetstar Hong Kong, will has a total initial capital of

US$115 million. Depending on certain terms and conditions, we and Jetstar Airways will each contribute equal capital amounts to increase the capital of Jetstar Hong Kong to US$198 million. Under the terms of the MOU and Shareholders Agreement, we and Jetstar Airways will hold equal equity interests in Jetstar Hong Kong. In September 2012, Jetstar Hong Kong received the Certificate of Incorporation issued by the relevant Hong Kong government authorities.

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

On June 12, 2012, the Board resolved and approved to issue corporate bonds in the aggregate principal amount of not more than RMB8.8 billion and for a term of not more than ten years for a single or multiple issuances. We received CSRC approval for this issuance on December 12, 2012. On March 20, 2013, we issued the first tranche of corporate bonds in the amount of RMB4.8 billion at 5.05% due 2023. The use of proceeds from this issuance were to repay bank loans, improve our financing structure and replenish short-term working capital.

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

The table below sets forth details of our operating fleet as of December 31, 2010, 2011 and 2012:

	No. of Aircraft Owned And under Finance Leases 2010	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases 2011	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases 2012	No. of Aircraft under Operating Leases
A340-600	5	—	5	—	5	—
A340-300	5	—	5	—	—	—
A330-300	8	7	8	7	8	7
A330-200	2	3	4	3	10	3
A300-600R	7	—	7	—	7	—
A321	20	—	22	—	27	—
A320	71	24	88	24	98	33
A319	5	10	5	10	12	8
B737-800	15	46	16	48	17	56
B737-700	33	19	35	19	37	18
B737-300	16	—	16	—	16	—
B757-200	5	5	5	5	5	5
B767	9	1	6	1	6	1
EMB-145LR	10	—	10	—	10	—
CRJ-200	8	2	8	—	8	—
Hawker800	1	—	1	—	—	—
A300-600R	3	—	3	—	3	—
B747-400ER	2	—	2	3	2	3
MD-11F	—	7	—	3	—	3
B757-200F	—	2	—	2	—	2
B777F	—	4	—	6	—	6
Total	225	130	246	131	271	145

B. Business Overview

Our Company was one of the three largest air carriers in China in terms of revenue-tonne-kilometers and number of passengers carried in 2012, and is an important domestic airline based in and serving Shanghai, which is considered to be the international financial center and the international shipping center of China. We serve a route network that covers 1,000 domestic and foreign destinations in 187 countries through Skyteam. We operate primarily from Shanghai's Hongqiao International Airport and Pudong International Airport, which collectively ranked the first and second largest airport in terms of cargo and mail traffic and passenger traffic (as measured in total freight weight and total passenger number in China in 2012), respectively. In 2012, we accounted for 50.2% and 38.4% of the market share at Hongqiao International Airport and Pudong International Airport, respectively, in terms of flight take-off and landing statistics, and accounted for 48.2% and 36.6% of the market share at Hongqiao International Airport and Pudong International Airport, respectively, in terms of passenger throughput.

We have received many awards, recognitions and accolades through the years. We were recognized as one of the "Most Innovative PRC Companies" by *Fortune Magazine* in 2011, and our "China Eastern Airlines" brand was awarded China's Famous Trademark by the State Administration for Industry and Commerce in 2011. In addition, in 2012 we received various recognitions and awards, including "Golden Tripod Prize", which was the highest award awarded at the 8th Annual Meeting of China's Securities Market, Golden Bauhinia Award for "The Listed Company with Best Brand Value 2012" by China Securities, "2012 Best Mid-Cap Company and Best Managed Company in China" by Asiamoney Magazine ,"Top 50 Most Valuable Chinese Brands" by WPP, a global brand communication and public relations firm, "2012 TOP 25 CSR (Corporate Social Responsibility) Ranking" by Fortune China Magazine, "2012 China State-owned Listed Enterprise Social Responsibility Rankings Top 20" by Southern Weekly, "The Best Board of Directors of State-owned Listed Holding Companies of China Top 20" by various major financial media, including Moneyweek, "Healthy China – Best Employee Health & Benefit Unit" by Health Times, a major newspaper in China focusing on health and lifestyle, and Tsinghua University, "Internal Audit Leading Enterprises in terms of Risk Management and Internal Audit" by China Institute of Internal Audit, "Best 100 Employer" by Zhilian Zhaopin, a major online recruiting website in China, and "The World's Most Improved Airline" by SKYTRAX, a United Kingdom-based aviation research organization.

Compared to 2011, our traffic volume (as measured in RTKs) increased by 7.5%, from 13,402 million in 2011 to 14,406 million in 2012. Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) increased from 100,895 million in 2011 to 109,113 million in 2012, or 8.1%. Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) increased by 6.3%, from 4,421 million in 2011 to 4,701 million in 2012.

Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the three years ended December 31, 2012:

	Year Ended December 31,		
	2010	2011	2012
	(Millions of RMB)	(Millions of RMB)	(Millions of RMB)
Traffic revenues			
Passenger	54,625	60,383	61,038
Cargo and mail	5,810	5,482	5,237
Fuel surcharges	6,956	10,649	13,169
Total traffic revenues	67,391	76,514	79,444

Passenger Operations

The following table sets forth certain passenger operating statistics of our Company by route for each of the three years ended December 31, 2012:

	Year Ended December 31,		
	2010	2011	2012
Passenger Traffic (in RPKs) (millions)	93,153	100,895	109,113
Domestic	66,310	70,933	76,156
Regional (Hong Kong, Macau and Taiwan)	4,074	3,811	3,852
International	22,769	26,151	29,105
Passenger Capacity (in ASKs) (millions)	119,451	127,891	136,724
Domestic	83,421	88,013	95,168
Regional (Hong Kong, Macau and Taiwan)	5,576	5,193	5,084
International	30,453	34,685	36,472
Passenger Yield (RMB)	0.63	0.68	0.65
Domestic	0.64	0.69	0.66
Regional (Hong Kong, Macau and Taiwan)	0.78	0.81	0.84
International	0.60	0.63	0.62
Passenger Load Factor (%)	77.98	78.89	79.81
Domestic	79.49	80.59	80.02
Regional (Hong Kong, Macau and Taiwan)	73.05	73.39	75.77

International	74.77	75.40	79.80

The primary focus of our business is the provision of domestic, regional and international passenger airline services. Currently we serve a route network that covers 1,000 domestic and foreign destinations in 187 countries through SkyTeam.

Our domestic routes generated approximately 70.2% of our passenger revenues. Our most heavily traveled domestic routes generally link Shanghai to the large commercial and business centers of China, such as Beijing, Guangzhou and Shenzhen.

We also operated approximately 21 flight routes between mainland China and Hong Kong. In addition, we operated approximately 19 routes between mainland China and Taiwan and two routes between China and Macau. Our regional routes accounted for approximately 4.5% of our passenger revenues in 2012. In April 2010, we entered into a strategic framework agreement with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan.

In 2012, we introduced several new international routes, including Shanghai-to-Cairns, Zhengzhou-to-Shanghai-to-Osaka, Wuhan-to-Pudong-to-Shizuoka, Qingdao-to-Wuhan-Singapore, Hangzhou-to-Phuket and Hangzhou-to-Bangkok. We have also increased the number of flights for certain international routes during peak travel seasons. In addition, due to the change of relationship between China and Japan, certain flights and jet fleet resources that were originally allocated for routes to and from Chinese and Japanese destinations were diverted and re-allocated to China-to-Southeast Asia routes. Revenues derived from our operations on international routes accounted for approximately 25.3% of our passenger revenues.

Most of our international and regional flights and a substantial portion of our domestic flights either originate or terminate in Shanghai, the central hub of our route network. Our operations in Shanghai are conducted primarily at Hongqiao International Airport and Pudong International Airport. Most of our international flights to or from Shanghai originate or terminate at Pudong International Airport. Pudong International Airport is located approximately 30 kilometers from the central business district of Shanghai. We moved our operations at Hongqiao International Airport to terminal two of Hongqiao International Airport on March 16, 2010.

We operate most of our flights through our three hubs located in eastern, northwestern and southwestern China, namely Shanghai, Xi’an and Kunming, respectively. With Shanghai as our main hub and Xi’an and Kunming as our regional hubs, we believe that we will benefit from the level of development and growth opportunities in eastern, northern and western China as a whole by providing direct services between various cities in those regions and between those regions and other major cities in China. We have steadily fostered the construction of flight system for these core hubs by introducing new flight destinations and increasing the frequency of certain flights, thereby enhancing our transfer and connection capability in these hub markets. By the end of 2012, we established a preliminary flight frequency of “four-in-four-out” at Shanghai Pudong International Airport, with “four-in-four-out” currently also being established at Kunming Airport, both of which are expected to increase the transfer and connection services via Kunming to Southeast Asia, South Asia and Western Asia. Xi’an Airport is also in the process of establishing a "three-in-three-out" flight frequency.

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

Cargo and Mail Operations

The following table sets forth certain cargo and mail operating statistics of our Company by route for each of the three years ended December 31, 2012:

	Year Ended December 31,		
	2010	2011	2012
Cargo and Mail Traffic (in RFTKs) (millions)	4,308	4,421	4,701
Domestic	980	934	923
Regional (Hong Kong, Macau and Taiwan)	155	148	117
International	3,173	3,338	3,661
Cargo and Mail Capacity (in AFTKs) (millions)	7,137	7,152	7,416
Domestic	2,031	1,987	1,966
Regional (Hong Kong, Macau and Taiwan)	313	312	239
International	4,792	4,853	5,211
Cargo and Mail Yield (RMB)	1.95	1.83	1.71
Domestic	1.28	1.44	1.44
Regional (Hong Kong, Macau and Taiwan)	4.54	4.49	3.94
International	2.04	1.82	1.70
Cargo and Mail Load Factor (%)	60.37	61.81	63.39
Domestic	48.27	47.01	46.92
Regional (Hong Kong, Macau and Taiwan)	49.59	47.60	48.91
International	66.20	68.78	70.26

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

The development of cargo operations is an important part of our Company's growth strategy. We have three MD-11F, two B757-200F, three B747-400ER and six B777F freight aircraft under operating leases for cargo and mail operations. We also have three A300-600R aircraft as well as two B747-400ER freighters for our cargo operations. In December 2010, China Cargo Airlines entered into a purchase agreement to acquire the relevant air cargo assets of Great Wall Airlines. China Cargo Airlines also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. Both acquisitions have obtained the requisite approvals from CAAC, NDRC, and MOC, and were completed on May 31, 2011. After the completion of these acquisitions and reorganizations, the New China Cargo Airlines, which is 51% owned by us, officially began its operation on May 1, 2011 and became the largest air cargo transportation company in the PRC in terms of cargo and mail capacity.

Our Operations by Geographical Segment

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

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

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

The following table sets forth our revenues by geographical segment for each of the three years ended December 31, 2012:

	2010 (millions of RMB)	2011 (millions of RMB)	2012 (millions of RMB)
Domestic	49,692	56,014	57,282
Regional (Hong Kong, Macau and Taiwan)	3,901	3,771	3,682
International	20,211	22,618	24,289
Total	73,804	82,403	85,253

Regulation

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

- the administration of airports and air traffic control systems;

- aircraft registration and aircraft airworthiness certification;

- operational safety standards; and

- the liabilities of carriers.

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

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

- the acquisition of aircraft and spare parts;
- the training and supervision of personnel; and
- many other areas of day-to-day operations.

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

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

Because our Company provides services on international routes, we are also subject to a variety of bilateral civil air transport agreements between China and other countries. In addition, China is a contracting state as well as a permanent member of the International Civil Aviation Organization, an agency of the United Nations established in 1947 to assist in the planning and development of the international air transportation. The International Civil Aviation Organization establishes technical standards for the international airline industry. China is also a party to a number of other international aviation conventions. The business operations of our Company are also subject to these international aviation conventions, as well as certain foreign country aviation regulations and local aviation laws with respect to route allocation, landing rights and related flight operation regulation.

Domestic Route Rights

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

Regional Route Rights

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

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

Prior to 2003, there was no direct air link between mainland China and Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by the governments of mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. Mainland China and Taiwan agreed to increase flight destinations for air links between the two sides in mainland China to 33 airports in various PRC cities in 2010, while flight destinations in Taiwan continue to include eight airports in various cities in Taiwan. At the end of 2011, the two sides agreed to increase the total number of flights to 616 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. The two sides also previously agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports.

International Route Rights

International route rights, along with the corresponding landing rights, are derived from air services agreements negotiated between the PRC government, acting through the CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled services between certain points within each country. The CAAC awards the relevant route to an airline based on various criteria, including:

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

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

Airfare Pricing Policy

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

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

The CAAC and the National Development and Reform Commission, or NDRC, jointly publish pricing guidelines from time to time, which set forth the basic airfare levels and permitted ranges. Pursuant to the current pricing guidelines, the basic airfares for most domestic routes are the published airfares implemented by Chinese airlines immediately prior to the approval of the Pricing Reform Plan. Except for certain domestic routes, the actual airfare set by each Chinese airline for its domestic routes cannot be 25% higher or 45% lower than the basic airfare. Domestic routes that are not subject to the deviation range restrictions include short-haul routes between cities in the same province or autonomous region, or between a municipality and adjacent provinces, autonomous regions or another municipality. Certain tourist routes and routes served by only one Chinese airline are not subject to the bottom range restriction. The CAAC and the NDRC will announce the routes that are not subject to the deviation range restrictions through the airfare information system known as Airtis.net. Chinese airlines may apply to the CAAC and the NDRC for exemption from the bottom range restriction for a particular route. Chinese airlines are also required to file the actual airfare they set for their domestic routes within the ranges through Airtis.net 30 days prior to its implementation.

The CAAC and the NDRC will regularly review the average operating costs of Chinese airlines, and may adjust the basic airfare for particular domestic routes which, in their view, is not at a reasonable level. The CAAC and NDRC issued a notice on April 13, 2010, effective on June 1, 2010, pursuant to which airlines may set first-class and business-class airfares in accordance with market prices, subject to relevant PRC laws. Such pricing must be filed 30 days before effectiveness with the CAAC and NDRC. We expect that, as this and other reforms continue into 2010, we will have more flexibility in operating our aviation business in the future. The promotion by Chinese regulators of a regulated and orderly market and a fair and positive competition mechanism will also provide a favorable environment for the growth of our business.

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

Acquisition of Aircraft and Spare Parts

Our Company is permitted to import aircraft, aircraft spare parts and other equipment for our own use from manufacturers through EAIEC, which is 55% owned by CEA Holding and 45% owned by our Company. This gives us freedom in rationalizing our maintenance practices by allowing us to maintain a relatively lower overall inventory level of aircraft parts and equipment than we otherwise would have to maintain. We are still required to obtain an approval from the NDRC for any import of aircraft. We generally pay a commission to EAIEC in connection with these imports.

Domestic Fuel Supply and Pricing

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

In 2005, the NDRC, the CAAC and the China Air Transport Association jointly launched the linkage mechanism for aviation fuel prices and transportation prices by airline companies. The fuel surcharge standards for domestic passenger routes were adjusted according to a series of notices regarding the adjustments of passenger fuel surcharges on domestic routes issued by the NDRC and CAAC from 2006 to 2008. In the second half of 2008, international crude oil prices decreased significantly, leading the NDRC and the CAAC to release an announcement on January 14, 2009 to suspend fuel surcharges for domestic passenger routes with effect from January 15, 2009. A Notice Concerning the Relevant Issues on Establishment Linkage Mechanism for Passenger Fuel Surcharges on Domestic Routes and the Price of Domestic Aviation Coal Oil Fuel (the “2009 Notice”) by NDRC and CAAC, with effect from November 14, 2009, provided that fuel surcharges shall be charged by the airlines, at the airline's discretion, but within certain limits for imposing fuel surcharges as set forth in the 2009 Notice. On March 31, 2010, the NDRC and CAAC issued the Notice Regarding the Publication of Passenger Fuel Surcharges Rate on Domestic Routes, which reduced the standard fuel surcharge by 3.1% for domestic routes. In addition, on March 31, 2011, the NDRC and CAAC issued another similar notice, which further adjusted the standard fuel surcharge downwards. From August 1, 2011, according to the *Announcement on the Linking Mechanism for Fuel Surcharges and Aviation Coal Oil Fuel,* issued by the NDRC and CAAC, the rate of domestic route fuel surcharges will be adjusted each month if the difference in consolidated purchase costs for domestic aviation coal oil fuel exceeds RMB250 per ton.

Safety

The CAAC has made the continued improvement of air traffic safety in China a high priority. The CAAC is responsible for the establishment of operational safety, maintenance and training standards for all Chinese airlines, which have been formulated based on international standards. Each Chinese airline is required to provide flight safety reports to the CAAC, including reports of flight incidents or accidents involving its aircraft which occurred during the relevant reporting period and other safety related problems. The CAAC conducts safety inspections on each airline periodically.

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

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

In early 2013, the CAAC amended the original Civil Aviation Incidents Standards and published the new Civil Aviation Incidents Standards (MH/T2001-2013), which became effective as of March 1, 2013. We will ensure our relevant employees implement the new standards, which will enable us to enhance our daily operations. For more information on the safety standards and measures implemented by us, see "– Maintenance and Safety – Safety."

Security

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

Noise and Environmental Regulation

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

Chinese Airport Policy

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

On December 28, 2007, the CAAC and the NDRC released the Implementing Scheme for the Civil Aviation Airport Charges Reform Implementation Plan, which was implemented on March 1, 2008. This new plan divides airport charges into three parts: charges related to airline businesses; charges related to important non-airline items; and other non-airline charges. The charges related to airline businesses and important non-airline items must follow the national guided prices, in which the standard prices are rarely increased, while reduced rates can be negotiated between the airport or the service provider and the users. The plan grants us the right to negotiate with airports on the airport charges.

The civil aviation infrastructure levy was paid to the Ministry of Finance and refunded again from July 1, 2008 to June 30, 2009, according to one of the ten measures announced by the CAAC in December 2008 in response to the global economic downturn. The refunded levy for China's aviation industry will amount to approximately RMB4,000 million in total. The ten measures also include measures to enhance safety, reduce taxes, invest in infrastructure and optimize the airspace and air routes.

Limitation on Foreign Ownership