

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**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
<sup>x</sup>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

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(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

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

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  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

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  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  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

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## **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.



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				
	2008	2009	2010	2011	2012
	RMB	RMB	RMB	RMB	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 <sup>(2)</sup>	(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

Effective January 1, 2012, the pilot program for the transformation from business tax to value-added tax regarding (1) 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.

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	2009	2010	As of December 31,	
				2011	2012
	RMB	RMB	RMB	RMB	RMB
				(in millions)	
<b>Consolidated Balance Sheet Data (IFRS):</b>					
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.

	<b>RMB per US\$1.00 <sup>(1)</sup></b>		<b>HK\$ per US\$1.00 <sup>(1)</sup></b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
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.

	<b>RMB per US\$1.00 <sup>(1)</sup></b>	<b>HK\$ per US\$1.00</b>
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.

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 contribution. 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 have 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 places by China Eastern Airlines Corporation Limited” and the “Proposal for the non-public issuance of H Shares to specific places by China Eastern Airlines Corporation Limited,” according to which, (i) CEA Holdings and CES Finance 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		No. of Aircraft Owned		No. of Aircraft Owned	
	And under Finance Leases	under Operating Leases	And under Finance Leases	under Operating Leases	And under Finance Leases	under Operating Leases
	2010		2011		2012	
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
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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.



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***

The CAAC's present policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot individually or together hold a majority of our total outstanding shares. As of December 31, 2012, approximately 30.99% of our total outstanding shares were held by non-Chinese residents and Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). For PRC air transportation companies, pursuant to the Catalog of Industries for Guiding Foreign Investment, jointly promulgated by the NDRC and MOC on December 24, 2011, Chinese investors should be the controlling shareholders of a PRC air transportation company.

### **Competition**

#### ***Domestic***

Our Company competes against our domestic competitors primarily on the basis of safety, quality of service and frequency of scheduled flights. With the combination of our dominant position in Shanghai, our route network and our continued commitment to safety and service quality, we believe that our Company is well-positioned to compete against our domestic competitors in the growing airline industry in China. However, domestic competition from other Chinese airlines has been increasing recently as our competitors have increased capacity and expanded operations by adding new routes or additional flights to existing routes and acquiring other airlines. In addition, we have faced intense competition from entrants to our domestic markets as new investments into China's civil aviation industry have been made following the CAAC's relaxation of certain private-sector investment rules in July 2005. In December 2008, the CAAC announced ten measures to protect and encourage the domestic aviation industry, one of which provides that no new Chinese airlines will be licensed to incorporate and operate aviation businesses before 2010. In October 2010, the CAAC announced that the suspension of approvals for new Chinese airlines companies would continue for an indefinite time period. However, if the restriction is lifted in the future, we expect that competition from other Chinese airlines on our routes will further intensify.

There are currently over 30 Chinese airlines in mainland China, and our Company competes with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. Our Company, Air China Limited, or Air China, which is based in Beijing and listed on the Hong Kong Stock Exchange and the London Stock Exchange, and China Southern Airlines Company Limited, or China Southern, which is based in Guangzhou and listed on the Hong Kong Stock Exchange and the New York Stock Exchange, are the three leading air carriers in China, both in terms of revenue tonne-kilometers and size of operations.

Each of the domestic airlines competes against other airlines operating the same routes or flying indirect routes to the same destinations. Our principal competitors in the domestic market are China Southern and Air China, which also provide transportation services on some of our routes, principally routes originating from the major air transportation hubs in China, such as Shanghai, Guangzhou and Beijing. Some of these routes are among our most heavily traveled routes. Since most of the major domestic airlines operate routes from their respective hubs to Shanghai, our Company also competes against virtually all of the major domestic airlines on these routes. In addition, we are facing increasing competition from certain low-cost carriers, such as Spring Airlines, in the domestic market. Spring Airlines competes with us, as it operates daily domestic routes to certain destinations such as Harbin, Shenyang, Guangzhou, Xiamen, Sanya, Kunming and Chongqing, which are covered in our domestic routes. However, we believe we are well-positioned to compete against domestic low-cost carriers due to our expansive route network, competitive pricing, greater availability of flight services to these destinations and strong brand name.

We also face competition from other domestic carriers in our air cargo business. However, we believe our absorption of Shanghai Airlines in early 2010 will strengthen our market positioning within the domestic market, particularly with respect to routes to and from Shanghai. In addition, we believe that relevant air cargo assets of Shanghai Airlines, Great Wall Airlines and Shanghai International Freight Airlines Co., Ltd. have strengthened our competitive position in the domestic air cargo sector. We have also recently initiated a strategy to accelerate the transition of our role from air cargo transportation enterprise to aviation and logistics services provider. On December 26, 2012, we established China Eastern Airlines Logistic Company by merging China Cargo Airlines and Eastern Logistics, which we believe will facilitate our development of services with respect to courier, logistics solutions and aviation trade and on-site logistics services platforms.

### *Domestic Rail*

The PRC government is aggressively implementing the expansion of its domestic high-speed rail network, which will provide train services at a speed of up to 350km per hour connecting major cities such as Beijing, Shanghai, Wuhan, Qingdao, Guangzhou, Dalian and Hong Kong. The expansion of the coverage of this network and improvements in railway service quality, increased passenger capacity and stations located closer to urban 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. The high-speed railway connecting Beijing and Shanghai commenced operations in July 2011, and has substantially affected our Beijing and Shanghai routes, as well as routes between Shanghai and Jinan, Beijing and Nanjing, Shanghai and Xuzhou, Shanghai and Tianjin and Beijing and Changzhou.

With a PRC national high-speed railway network expected to be established and fully functional sometime in 2013, we will inevitably face increasing competition and pricing pressures from this railway service. Therefore, we have been taking active measures in decreasing the number of short-haul routes that overlap with such high-speed train routes, as well as adjusting certain airfare prices on affected routes, facilitating “air-to-railway” transfers and allocating flight resources to alternative routes or medium-to-long-haul routes that have higher profitability, higher demand and lessened competition. We expect to continue exploring cooperation opportunities with domestic railway authorities,

while maintaining and strengthening our other competitive advantages, which include providing high quality services, increasing our pre-sale product promotions and developing our transfer services.

### *Regional*

Our Hong Kong routes are highly competitive. The primary competitor on our Hong Kong routes is Cathay Pacific Airways ("Cathay"), and Hong Kong Dragon Airlines Limited ("Dragonair"). We currently operate approximately 21 flight routes between Chinese cities and Hong Kong. Cathay and Dragonair compete with us on several of these routes, particularly the Shanghai-Hong Kong route. We also face competition from Spring Airlines on our Shanghai-Hong Kong, Hangzhou-Hong Kong, Nanjing-Hong Kong and Shanghai-Macau routes. The Air Transportation Arrangement signed between the PRC government and the administrative government of Hong Kong in February 2000 provides for equal opportunity for airlines based in Hong Kong and mainland China. As a result, Dragonair has increased the frequency of its flights on several of our Hong Kong routes, resulting in intensified competition. Our Company also faces competition from Dragonair in our Hong Kong cargo operations. Cathay, which owns Dragonair, also cooperates with Air China and operates all passenger services of Cathay and Air China between Hong Kong and mainland China as joint venture routes under code-share and revenue and cost-pooling arrangements. This may further intensify the competition on the routes between Hong Kong and mainland China and impose greater competitive pressure on the other airline companies operating on these routes.

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. At the end of 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. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. We currently operate flights to Taipei from Shanghai, Nanjing, Xi'an, Kunming, Wuhan, Hefei, Nanchang, Ningbo, Taiyuan, Shijiazhuang and Qingdao. Through our absorption of Shanghai Airlines in 2010, we have added three additional direct routes to Taipei from Shanghai, Tianjin and Nanjing. In addition, we signed a strategic framework agreement in April 2010 with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan. However, as one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.



We previously competed with Air Macau on the Shanghai Pudong-Macau route but ceased to operate that route in October 2008. Air Macau's routes also provide an alternative to our Hong Kong routes for passengers travelling between Taiwan and mainland China.

### *International*

We compete with Air China, China Southern and many other well-established foreign carriers on our international routes. Most of our international competitors are very well-known international carriers and are substantially larger than we are and have substantially greater financial resources than we do. Many of our international competitors also have significantly longer operating histories and greater name recognition than we do. Some international passengers, who may perceive these airlines to be safer and provide better service than Chinese airlines in general, may prefer to travel on these airlines. In addition, many of our international competitors have more extensive sales networks and utilize more developed reservation systems than ours, or engage in promotional activities, such as frequent flyer programs, that may be more popular than ours and effectively enhance their ability to attract international passengers.

We also face significant competition in our international cargo operations. Moreover, China and the United States entered into an air service agreement on July 24, 2004. Pursuant to this agreement, five additional airlines from each country are allowed to serve the China-U.S. market over the next few years. Another air transport agreement was signed between China and the United States on July 9, 2007 in order to increase travel and tourism and promote cultural, business and governmental exchanges between China and the United States, as well as to promote the ultimate objective of full liberalization of the bilateral air transport market. A trade services agreement was also signed between China and ASEAN countries in January 2007 and became effective in July 2007 to remove the restrictions on China's entry into foreign freight markets.

Air China operates the largest number of international routes among all Chinese airlines. Beijing, the hub of Air China's operations, is the destination for most international flights to China. We primarily compete with Air China, All Nippon Airways, Japan Airlines, and Spring Airlines on our passenger routes to Japan. On our Korean routes, we compete with China Southern Airlines, Air China and Asiana Airlines and Korean Air. Our principal competitors on our flights to Southeast Asia include Thai Airways International, Singapore Airlines, Malaysia Airlines, Air Asia and Vietnam Airlines. On our passenger flights to the United States, our principal competitors include Delta Air Lines, United Airlines, American Airlines, Air China and Air Canada. On our European routes, our competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways, Lufthansa German Airlines and Alitalia. We compete with Air China, China Southern Airlines and Qantas Airways on our Australian routes. We compete in the international market on the basis of price, service quality, frequency of scheduled flights and convenient sales arrangements. To improve our competitive position in international markets, we have established additional dedicated overseas sales offices, launched our own frequent flyer program, participated in "Asia Miles", a popular frequent flyer program in Asia, and entered into code-sharing arrangements with a number of foreign airlines. We have also improved our online reservation and payment system. In 2012, we implemented code-sharing programs covering 274 destinations along 429 routes with SkyTeam member airlines. See " – Marketing and Sales – SkyTeam Alliance."

In addition, in June 2011, we joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes, among others, international carriers such as Delta, China Southern, Alitalia, Air France and KLM. As a member of SkyTeam alliance, our Elite members can enjoy over 525 lounges world-wide.

## **Maintenance and Safety**

The rapid increase in air traffic volume in China in recent years has put pressure on many components of China's airline industry, including air traffic control systems, the availability of qualified flight personnel and airport facilities. In recent years, the CAAC has placed increasing emphasis on the safety of airline operations in China and has implemented a number of measures aimed at improving the safety record of the airlines. Our ability to provide safe air transportation in the future depends on the availability of qualified and experienced pilots in China and the improvement of maintenance services, national air traffic control and navigational systems and ground control operations at Chinese airports. We have a good safety record and regard the safety of our flights as the most important component of our operations.

### *Maintenance Capability*

Through our cooperation with service providers and ventures with other companies, we currently perform regular repair and maintenance checks on all of our aircraft, which include D1 checks, C checks and other maintenance services for certain aircraft and other flight equipment. We also perform certain maintenance services for other Chinese airlines. Our primary aircraft maintenance base is at Hongqiao International Airport. In 2011, we commenced use of a newly constructed wide-body aviation hangar at Hongqiao International Airport, which can accommodate the maintenance of two of our wide-body aircraft and one narrow-body aircraft. We have additional maintenance bases at Pudong International Airport and some of our provincial hubs. Our maintenance staff in Shanghai supervises the operation of our regional maintenance facilities. We employed approximately 12,698 workers as maintenance and engineering personnel as of December 31, 2012. Some of our aircraft maintenance personnel have participated in the manufacturer training and support programs sponsored by Airbus and Boeing. In order to enhance our maintenance capabilities and to reduce our maintenance costs, we have, over the past few years, acquired additional maintenance equipment, tools and fixtures and other assets, such as airborne testing and aircraft data recovery and analysis equipment. Our avionics equipment is primarily maintained and repaired at our electronic maintenance equipment center located in Shanghai.

We entered into a joint venture with Honeywell International Inc., formerly Allied Signal Inc., in Shanghai for the purpose of performing maintenance and repairs on aircraft wheel assemblies and brakes. Since October 1997, we have operated a maintenance hangar at Hongqiao International Airport which has the capacity to house two wide-body aircraft. Our Company and Rockwell Collins International Inc. of the United States have also co-established Collins Aviation Maintenance Service Shanghai Limited, which is primarily engaged in the provision of repair and maintenance services for avionics and aircraft in-flight entertainment facilities in China. Our Company and Rockwell Collins International Inc. hold 35% and 65%, respectively, of the equity interests in the joint venture. Moreover, in November 2002, our Company, jointly with Aircraft Engineering Investment Limited, established Shanghai Eastern Aircraft Maintenance Limited, in which our Company holds 60% of the equity interests, to provide supplemental avionics and other maintenance services to our Company. STA, which was established in 2004 by our Company and Singapore Technologies Aerospace Ltd. under a joint venture agreement dated March 10, 2003, also provides us with aircraft maintenance, repair and overhaul services.

On November 6, 2007, we entered into a joint venture with United Technologies Corp., or UTC, to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd., or Pratt & Whitney, for the purpose of performing maintenance and repairs on aircraft engines. Our Company and UTC contributed US\$20,145,000 and US\$19,355,000, respectively, to the registered capital and hold 51% and 49%, respectively, of the equity interests in the joint venture. Moreover, after our absorption of Shanghai Airlines, we took over its 15% equity interest in Boeing Shanghai Aviation Services Co., Ltd. (“Boeing Shanghai”). As of December 31, 2012, Boeing (China) Investment Co., Ltd., Shanghai Airport (Group) Co., Ltd. and Boeing (Asia) Services Investment Limited hold 35.3%, 25.0% and 24.7%, respectively, of the remaining equity interest. Boeing Shanghai was founded in 2006 with a registered capital of US\$85,000,000, and operates a maintenance hangar with the capacity to provide aircraft modification and maintenance services for two wide-body aircraft and one narrow-body aircraft and provides aircraft modification and maintenance services. In addition, we also hold 50% of Shanghai Airlines’ previous equity interest in Shanghai Hute Aviation Technology Co., Ltd. (“Shanghai Hute”). The remaining equity interest is held by Sichuan Haite High-Tech Co., Ltd. Shanghai Hute was founded in 2003 with a registered capital of RMB30,000,000, and provides maintenance

services for aviation equipment. The enhancement of our maintenance capabilities allows our Company to perform various maintenance operations in-house and continue to maintain lower spare parts inventory levels.

### *Safety*

The provision of safe and reliable air services for all of our customers is one of our primary operational objectives. We implement uniform safety standards and safety-related training programs in all operations. Our flight safety management division monitors and supervises our Company's flight safety. We have had a flight safety committee since the commencement of our business, comprised of members of our senior management, to formulate policies and implement routine safety checks at our Shanghai headquarters and all provincial hubs. The flight safety committee meets monthly to review our overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. We have also implemented an employee incentive program, using a system of monetary rewards and discipline, to encourage compliance with the CAAC safety standards and our safety procedures. We periodically evaluate the skills, experience and safety records of our pilots in order to maintain strict control over the quality of our pilot crews. In 2011, we were awarded the "Flight Safety Five-star Award" by CAAC for our commitment to aviation and operations safety.

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

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

All of our jet passenger aircraft pilots participated in the manufacturer training and support programs sponsored by Airbus and Boeing and are required to undergo recurrent flight simulator training and to participate in a flight theory course periodically. We use flight simulators for A300-600R, A320 and A330/340 aircraft at our own training facility, the training facility located in the CAAC training center or overseas training facilities.

### **Cyber-security**

With respect to our internal policies on cyber-security and internet safety, we have established an information safety management system and issued internal regulations on cyber-security, internal hardware and data safety systems to prevent loss of information due to cyber-security incidents, network outages or hardware incidents. We also plan to implement measures relating to the office environment information safety management and information system emergency management, information system access control, protection from any malicious software, management of information exchange tools and internal review and audit of information safety risks. Furthermore, we have entered into a strategic cooperation plan with the China Information Technology Security Evaluation Center by which their trained engineers evaluate our internal data security policies and cyber-security measures. In 2012, we established and announced two internal regulations relating to cyber-security, namely, *China Eastern Airlines Information Security Management Regulation*, and *China Eastern Airlines Information System Application and Development Safety Regulation*, which we believe will strengthen our information safety management systems and overall cyber-security defenses. During the year ended December 31, 2012, we did not experience any material cyber-security incidents or related losses.

### **Fuel Supplies**

Fuel costs represented approximately 36.10% of our operating expenses in 2012. We currently purchase a significant portion of the aviation fuel for our domestic routes from regional branches of the CAOSC. Fuel costs in China are affected by costs at domestic refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China. Fuel prices at six designated major airports in China, namely, the airports in Shanghai Pudong, Shanghai Hongqiao, Beijing, Guangzhou, Shenzhen and Tianjin, are set and adjusted once a month by the CAAC in accordance with prevailing fuel prices on the international market. For our international routes, we purchase a portion of our aviation fuel from foreign fuel suppliers located at the destinations of these routes, generally at international market prices.

In 2012, we consumed approximately 4.2 million tonnes of fuel, an increase of 7.2% from 2011. Our aviation fuel expenditures reached RMB29,872 million (based on value-added tax), representing an increase of 2.20% from RMB29,229 million last year, as a result of the expansion of our operations and an increase of approximately 2.14% in the average weighted price of aviation fuel in 2012. We implemented the policy of transformation from business tax to value-added tax in 2012. If calculated in line with the business tax, aviation fuel costs for 2012 grew by 9.52% from last year, and the increase in price of jet fuel increased aviation fuel expenditures by approximately RMB671 million. The increase in aviation fuel consumption resulted in an increase in aviation fuel expenditures of approximately RMB2,111 million. Jet fuel prices were volatile in 2011 and into 2012, with heightened political tensions between certain Middle Eastern countries and the United States, as well as continued political instability and turmoil in certain Middle Eastern countries. 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, the fuel prices gradually returned to the same price level as in the first quarter of 2012. We cannot assure you that fuel prices will not further fluctuate in the future. Further, due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased fuel costs we may encounter in the future. However, we intend to continue focusing on enhancing our jet fuel procurement policies and developing additional internal cost-control measures, which include streamlining the number of aircraft models in our fleet and optimizing route structures, which we believe will enable us to control our fuel costs.

## **Ground Facilities and Services**

The center of our operations is Shanghai, one of China's principal air transportation hubs. Our Shanghai operations are based at Hongqiao International Airport and Pudong International Airport. We currently also operate from various other airports in China, including Yaoqiang Airport in Jinan, Lukou Airport in Nanjing, Liuting Airport in Qingdao, Luogang Airport in Hefei, Changbei Airport in Nanchang, Wushu Airport in Taiyuan, Zhengding Airport in Shijiazhuang, Lishe Airport in Ningbo, Tianhe Airport in Wuhan, Wujiaaba Airport in Kunming and Xianyang Airport in Xi'an. We own hangars, aircraft parking and other airport service facilities at these airports, and also provide ground services in these locations. We lease from CEA Holding certain buildings at Hongqiao International Airport where our principal executive offices are located.

We have our own ground services and other operational services, such as aircraft cleaning and refueling and the handling of passengers and cargo for our operations at Hongqiao International Airport and Pudong International Airport. We also provide ground services for many other airlines that operate to and from Hongqiao International Airport and Pudong International Airport.

In-flight meals and other catering services for our Shanghai-originated flights are provided primarily by Shanghai Eastern Air Catering Limited Liability Company, a joint venture company affiliated with CEA Holding. We generally contract with local catering companies for flights originating from other airports.

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

## **Marketing And Sales**

### *Passenger Operations*

Our marketing strategy with respect to passenger operations is primarily aimed at increasing our market share for all categories of air travelers. With respect to our Hong Kong and international routes, we are permitted to market our services on the basis of price. We have limited flexibility in setting our airfares for domestic routes and adjust our domestic airfares in response to market demand. As part of our overall marketing strategy, we emphasize our commitment to safety and service quality. We believe that emphasis on safety is a critical component of our ability to compete successfully.

We have also adopted customized strategies to market our services to particular travelers. We seek to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travelers, we focus on the frequency of flights between major business centers, convenient transit services and an extensive sales network. We launched our initial frequent flyer program in 1998 and joined the "Asia Miles" frequent flyer program in April 2001 to attract and retain travelers. In August 2003, we upgraded and rebranded our frequent flyer program to "Eastern Miles" and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels, restaurants and other service providers that are our strategic partners. As a result of our continual efforts to develop the "Eastern Miles" program, the number of members of the frequent flyer program reached over 18 million in 2012. The special services hotline "95530" call center was established and came into operation in 2004. In addition, in 2012, we further expanded our marketing efforts to certain travelers by offering four frequent-flyer products that target different levels of demand and consumption, which include the "Eastern Premium", which provides concierge-style services to business travelers; "Eastern Privileges", which provide door-to-door services for potential high-net worth travelers; "Eastern Far Reach", which provides services to special-needs travelers; and "Eastern Shuttle", which provides travelers bound for Yunnan with itinerary design, transit and other value-added services.

In light of the expansion of national high-speed railway network, we have cooperated with the Shanghai Railway Bureau to launch "Air-Rail Pass Transportation" products in 13 cities in the Yangtze River Delta including Nanjing, Hangzhou and Suzhou in 2012. Our domestic and international flights together with its high-speed railway products at Shanghai Hongqiao International Airport and Shanghai Pudong International Airport have formed a air-rail two-way transportation product, which has helped us broaden our customer resources. Meanwhile, in response to the low seasons, we have launched travel products such as "Journey to the Three Regions in Southern China" (Yunnan, Hainan and Jiangnan) and "Journey to the West" (trip to greater western China via Xi'an), which has effectively enhanced passenger load factor for flights during low seasons.

In terms of our customer resources, we have actively explored and expanded our customer base of high-end business travelers to accelerate the development of group clients. In 2012, we added over 200 group clients, of which 15 are



global group clients, and the total number of our group clients amounts to over 4,500. In addition, we have fully promoted the expansion of Eastern Miles membership. In order to attract more members and to provide members with better experience in terms of diversity, comprehensiveness and flexibility, we have strengthened our cooperation with retail store owners by increasing the number of co-operative stores to 74, covering various industries such as financial services, hotel, car rental and health services. Our Eastern Miles members may accumulate and redeem points in these retail stores and the total number of exchangeable goods through this program has increased to over 850 items. By the end of 2012, we had over 3 million new Eastern Miles members, with a total of 18 million members.

Our advertising, marketing and other promotional activities include the use of radio, television and print advertisements. We plan to continue to use advertising and promotional campaigns to increase sales on new routes and competitive routes.

### ***Ticket Booking Systems***

In 2002 and again in 2012, we upgraded our online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. In 2012, we also expedited the construction of nine overseas websites in a variety of languages. Currently, our global website covers North America, Australia, Europe and Asia Pacific. We continue to encourage our customers to book and purchase tickets via the Internet by initiating various promotional campaigns and upgrading and expanding the services offered by our online sales system. In 2012, we introduced "China Eastern Mobile E", a smartphone application that provides mobile flight booking, flight status and online checking services, which we believe will provide our customers with additional convenient, value-added services.

We also maintain an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of our airline tickets are sold by domestic and international sales agents. Our tickets are sold throughout China through over 8,400 large and mid-sized sales agencies and travel agencies who have contractual relationships with us. Currently, our direct domestic ticket sales are handled primarily through employees based at our ticket counters located at airports such as Hongqiao International Airport and Pudong International Airport in Shanghai and in Anhui, Zhejiang, Shandong and Yunnan provinces, as well as at airports in Beijing, Chengdu, Fuzhou, Guangzhou, Hangzhou, Shenzhen, Xiamen and Yantai. Direct sales are also promoted through the availability of our telephone reservation and confirmation services. In addition to our domestic sales agents located in various cities in mainland China, Hong Kong, Macau and Taiwan, we maintain overseas sales or representative offices worldwide, including: (i) North American locations such as Honolulu, Los Angeles, New York, San Francisco and Vancouver; (ii) European and Middle Eastern locations such as Frankfurt, Hamburg London, Moscow, Paris, Rome, Madrid, Brussels and Munich; (iii) Asia-Pacific locations such as Seoul, Tokyo, Osaka, Nagoya, Fukuoka, Hiroshima, Sapporo, Niigata, Fukushima, Okinawa, Shizuoka, Kanazawa, Toyama, Nagasaki, Kagoshima, Okayama, Matsuyama, Singapore, Bangkok, Phuket, New Delhi, Kolkata, Kuala Lumpur, Ho Chi Minh, Bali, Dubai, Dhaka, Phnom Penh, Siem Reap, Vientiane, Yangon, Mandalay, Kathmandu and Maldives; and (iv) Australian locations such as Melbourne and Sydney. We maintain around 50 overseas sales or representative offices as of December 31, 2012.

As of June 1, 2008, we stopped issuing paper tickets for air travel in accordance with a mandate from the International Air Transport Association (“IATA”). The IATA represents approximately 240 airlines and comprises approximately 94% of scheduled international air traffic. As a result of the mandate, we now issue electronic itineraries and receipts as well as electronic tickets to our passengers. We believe the transition to 100% electronic ticketing will decrease administrative costs and increase flexibility and travel options for passengers in addition to benefiting the environment through the reduced need for paper. All of our direct passenger ticket sales are recorded on our computer systems. Most Chinese airlines, including us, are required to use the passenger reservation service system provided by the CAAC’s computer information management center, which is linked with the computer systems of major Chinese commercial airlines. We have also entered into membership agreements with several international reservation systems, including ABACUS, the largest computer reservation system in southeast Asia, TOPAS of Korea, SABRE, GALILEO and WORLDSPAN of the United States, AMADEUS of Europe, INFINI and AXESS of Japan and Sirena-Travel of Russia, which have made it easier for customers and sales agents to make reservations and purchase tickets for our international flights.

### *SkyTeam Alliance*

We officially joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes international carriers such as, among others, Delta, China Southern, Alitalia, Air France and KLM, on June 21, 2011. As of the date of this Annual Report, we have entered into frequent flyer and airport lounges agreements with 19 SkyTeam member airlines and implemented code-sharing programs covering 274 destinations along 429 routes with SkyTeam member airlines, as well as 130 destinations along 142 routes with non-SkyTeam member airlines, which has further broadened the coverage of the Group’s route network.

By connecting to the route networks of other SkyTeam member airlines, we are able to offer its passengers seamless transit to over 1000 destinations in 187 countries under a single plane ticket with direct luggage services. Passengers may also enjoy the comfort of more than 490 VIP airport lounges of SkyTeam around the world. The entry of our Company as well as Shanghai Airlines into SkyTeam became effective on June 21, 2011. We believe this will be another benefit for our passengers, as they will be afforded additional flight options and frequent flyer mileage benefits through our SkyTeam alliance partners. In addition, our Company will benefit from possible codeshare and cooperative flight options, reduced costs and increased alliance-related marketing and promotion overseas.

### ***Cargo Operations***

We maintain a network of cargo sales agents domestically and internationally. We and our cooperative partners in our cargo operations have established domestic cargo sales offices in Beijing, Shanghai, Xiamen and other major transportation hubs in China, and international cargo sales offices in various locations in the U.S., Europe and the Asia-Pacific Region. In 2005, we established our northern China, southern China, southeastern China and overseas sales management centers to improve coordination among our sales offices. In addition, we work closely with two major international freight forwarders, DHL Global Forwarding Co., Ltd. (“DHL Global”) and E.I. Freight Forwarding Co., Ltd. (“EI”), to operate international cargo lines that originate from Shanghai. We have entered into global rewards agreements with DHL Global and EI, granting them certain incentive rewards for increases in freight volume.

In 2012, we established a global freight transportation command center, which enables us to fully control and manage our operations at over 58 freight terminals, as well as implemented certain international quality benchmarks in accordance with Cargo2000, a quality control management standard for international aviation freight transportation operations, which we will believe will enable us to strengthen the cargo transportation services that we are able to provide.

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

### **Tourism and Travel Services, Logistics Services and Ancillary Activities**

In addition to our airline operations, we also generate commission revenues from tickets sold on behalf of other airlines. Commission rates for these sales are determined by the CAAC and are based on the price of the tickets sold. In December 2003, we acquired 10% of SEDC’s then equity interest and 35% of CEA Holding’s then equity interest in Shanghai Dong Mei Aviation Travel Corporation Limited, a company that is primarily engaged in the business of

selling air tickets, hotel reservation, travel agency and other related services.

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

We also derive revenues from the provision of airport ground services for airlines operating to or from Hongqiao International Airport and Pudong International Airport, including aircraft cleaning, loading, unloading, storage and ground transportation of cargo and passenger luggage. At present we are the principal provider of these services at Hongqiao International Airport and Pudong International Airport. We provide these services to foreign carriers generally pursuant to one-year renewable contracts. In 2012, we generated net revenues of approximately RMB2,119 million from our airport ground services and cargo handling services (2011:RMB2,383 million; 2010:RMB2,631 million).

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

In 2012, we leveraged on our internal resources to establish a business platform that provides diversified logistics and management solutions and services under the Shanghai Eastern Airlines Logistics Co., Ltd. ("Eastern Logistics"), which includes the integrated operations of China Cargo Airlines and Shanghai Far Eastern Airlines Logistics Co., Ltd. Eastern Logistics is expected to engage in shipping agency, ground cargo handling, logistics, road freight transport (general freight), warehousing and property management. We believe Eastern Logistics will enable us to develop new revenue sources and diversify our ancillary operations, while responding to customer demand for one-stop cargo transportation and logistics services. See "Item 7. Major Shareholders and Related Party Transactions."

## **Patents and Trademarks**

We own or have obtained licenses to use various domestic and foreign patents, patent applications and trademarks related to our business. While patents, patent applications and trademarks are important to our competitive position, no single one is material to us as a whole. In addition, we own various trademarks related to our business. The most important trademark is the service trademark of China Eastern Airlines Corporation Limited. All of our trademarks are registered in China.

## Insurance

The CAAC purchases fleet insurance from PICC Property and Casualty Company Limited ("PICC"), and China Pacific Property Insurance Company Ltd., on behalf of all Chinese airlines. PICC has reinsured a substantial portion of its aircraft insurance business through Lloyd's of London. The fleet insurance is subject to certain deductibles. The premium payable in connection with the insurance is allocated among all Chinese airlines based on the aircraft owned or leased by these airlines. Under the relevant PRC laws, the maximum civil liability of Chinese airlines for injuries to passengers traveling on domestic flights has been increased to RMB400,000 per passenger in March 2006, for which our Company also purchases insurance. As of July 31, 2006, the Convention for the Unification of Certain Rules for International Carriage by Air of 1999, or Montreal Convention, became effective in China. Under the Montreal Convention, carriers of international flights are strictly liable for proven damages up to 100,000 Special Drawing Rights and beyond that, carriers are only able to exclude liability if they can prove that the damage was not due to negligence or other wrongful act of the carrier (and its agents) or if the damage solely arose from the negligence or other wrongful act of a third party. We believe that we maintain adequate insurance coverage for the civil liability that can be imposed due to injuries to passengers under Chinese law, the Montreal Convention and any agreement we are subject to. We also maintain hull all risk, hull war risk and aircraft legal liability insurance, including third party liability insurance, of the types and in amounts customary for Chinese airlines. See also "Item 3. Key Information — Risk Factors — Risks Relating to the Company — Our insurance coverage and costs have increased substantially, and could have an adverse effect on our operations" for more information on our Company's insurance coverage."

### **C. Organizational Structure**

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

### **D. Property, Plant And Equipment**

#### **Fleet**

As of December 31, 2012, we operated a fleet of 428 aircraft, including 397 passenger aircraft, most with a seating capacity of over 100 seats, 19 freighters and 12 business aircraft in custody. In 2012, we completed: (i) the purchase and finance-lease of a total of 31 aircraft, including five A321 aircraft, ten A320 aircraft, six A330-200 aircraft, seven A319 aircraft, two B737-700 aircraft and one B737-800 aircraft; (ii) the operating- lease of 18 aircraft, including nine A320 aircraft and nine B737-800 aircraft; and (iii) the retirement of ten aircraft, including disposal of five A340-300 aircraft and one Hawker800 aircraft; and surrender of the lease of two A319 aircraft, one B737-800 aircraft and one B737-700 aircraft.

On April 27, 2012, we entered into a purchase agreement with Boeing Company in Shanghai, China regarding the purchase of 20 Boeing B777- 300ER aircraft. On the same date, we entered into a disposal agreement with Boeing Company regarding the disposal of five Airbus A340-600 aircraft. On November 23, 2012, we entered into a purchase agreement with Airbus SAS in Shanghai, China regarding the purchase of 60 Airbus A320 series aircraft. On the same date, we entered into a disposal agreement with Airbus SAS regarding the disposal of eight CRJ aircraft and ten EMB aircraft. For details, please refer to the announcements furnished to the SEC on Form 6-K dated April 27, 2012 and November 23, 2012. We plan to continue to expand our scale in 2013 and to adjust and optimize our route network, thereby increasing our competitiveness and ability to create more attractive products and services to meet the needs of the market.

#### ***Existing Fleet***

As of December 31, 2012, we had a fleet of 428 aircraft, including 397 passenger aircraft each with a seating capacity of over 100 seats, 19 freighters and 12 business aircraft in custody. The following table sets forth the details of our fleet as of December 31, 2012:

	Total Number of Aircraft	Number of Aircraft Owned and under Finance Lease	Aircraft under Operating Lease	Average Number of Seats	Average Age (in years) <sup>(1)</sup>
Jet Passenger Aircraft:					
Wide-body:					
A340-600	5	5	—	322	8.3
A330-300	15	8	7	300	5.0
A330-200	7	10	3	264	4.0
A300-600R	7	7	—	271	17.3
B767	7	6	1	253	11.0
Narrow-body:					
A321	27	27	—	177	4.1
A320	131	98	33	158	6.7
A319	20	12	8	122	9.0
B737-800	73	17	56	164	4.6
B737-700	55	37	18	134	6.6
B757-200	10	5	5	184	6.4
B737-300	16	16	—	136	16.4
EMB 145LR	10	10	—	50	5.5
CRJ-200	8	8	—	50	10
Total Passenger Aircraft:	397	266	131	N/A	N/A
Cargo Aircraft:					
MD-11F	3	—	3	—	4.6
A300-600R	3	3	—	—	21.8
B747	5	2	3	—	4.8
B757-200F	2	—	2	—	5.7
B777F	6	—	6	—	1.5
Total Cargo Aircraft:	19	5	14	N/A	N/A
Total number of passenger aircraft and freighters	416	271	145	N/A	N/A
		<i>No. of custody</i>			
Business Aircraft	12				
Total Fleet	428				

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

Our daily average aircraft utilization rate was 9.8 hours in 2012, remaining the same as in 2011. The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the three years ended December 31, 2012:

	2010	2011	2012
	(in hours)		
Wide-body:			
A340-600	11.9	12.0	12.3
A330-300	9.4	9.4	9.2
A330-200	13.8	14	13.7
A300-600	8.5	8.1	7.5
B767-300	9.1	10.2	10.8
Narrow-body:			
A321	9.6	9.5	9.1
A320	10	10.3	10.3
A319	9.5	9.2	8.5
B737-800	10.3	10.1	10.3
B737-700	9.7	9.9	9.9
B737-300	9.3	9.4	9.0
EMB 145	8.3	9.7	9.7
CRJ-200	6.6	6.7	5.9
B757-200	8.9	8.3	7.9
Total Passenger Aircraft Average	9.7	9.8	9.9

Most of our jet passenger aircraft were manufactured by either Airbus or Boeing. Our Airbus A340-600 aircraft are primarily used for our routes to the United States, Europe, Korea and other international destinations, including Los Angeles, New York, London, Paris, Seoul, and Bangkok, and on major domestic routes to cities. Our Airbus A330 aircraft are primarily used for our Beijing-Shanghai and Singapore, Australia, India, Japan and Korea routes. Our Airbus A320 and Boeing B737 aircraft are suitable for middle and short distance flights and are primarily used for our domestic routes. Our Airbus A320 aircraft are also used primarily on our Hong Kong routes. Our EMB145LR and CRJ-200 aircraft are mainly used on our domestic short-distance routes.

Our MD-11F, A300-600R, B777F and B747-400ER aircraft are used for our cargo operations and carry cargo to the United States, Europe and Japan.

### ***Future Fleet Development***

Our aircraft acquisition program focuses on aircraft that will modernize and rationalize our fleet to better meet the anticipated requirements of our route structure, taking into account aircraft size and fuel efficiency. Our aircraft



acquisition program, however, is subject to the approval of the CAAC and the NDRC. The following table summarizes our currently anticipated introduction and retirement of aircraft from 2013 to 2017 as of December 31, 2012:

Model	2013E		2014E		2015E		2016E		2017E	
	Introduction	Retirement	Introduction	Retirement	Introduction	Retirement	Introduction	Retirement	Introduction	Retirement
A320 Series	22	4	26	-	31	-	20	-	15	-
A330 Series	8	-	8	-	7	-	-	-	-	-
A340 Series	-	-	-	1	-	4	-	-	-	-
B737NG	26	5	24	-	35	-	15	-	-	-
B757	-	-	-	1	-	1	-	-	-	-
B777-300ER	-	-	4	-	5	-	5	-	3	-
Regional Aircraft	-	-	-	8	-	5	-	5	-	-
A300-600F	-	3	-	-	-	-	-	-	-	-
B747	-	-	-	1	-	1	-	-	-	1
B757F	-	-	-	-	-	2	-	-	-	-
MD11	-	2	-	-	-	0	-	-	-	-
Total	56	14	62	11	78	13	40	5	18	1

The actual quantity and time for the introduction and retirement of any of these aircraft or any additional aircraft may depend on such factors as general economic conditions, the levels of prevailing interest rates, foreign exchange rates, the level of inflation, credit conditions in the domestic and international markets, conditions in the aviation industry in China and globally, our financial condition and results of operations, our financing requirements, the terms of any financing arrangements, such as finance leases, and other capital requirements. We believe that our aircraft acquisition plan will help us accomplish our expansion plans while maintaining an efficient fleet and ensuring alternative sources of supply.

### *Fleet Financing Arrangements*

We generally acquire aircraft through either long-term capital leases or operating leases. Under the terms of most capital leases, we generally are obligated to make lease payments that finance most of the purchase price of the aircraft over the lease term. Upon the expiration of the lease term, we must either purchase the aircraft at a specified price or pay any amount by which such price exceeds the proceeds from the disposition of the aircraft to third parties. Alternatively, some capital leases provide for ownership of the aircraft to pass to us upon satisfaction of the final lease payment. Under capital leases, aircraft are generally leased for approximately the whole of their estimated working life, and the leases are either non-cancelable or cancelable only on a payment of a major penalty by the lessee. As a result, we bear substantially all of the economic risks and rewards of ownership of the aircraft held under capital leases. Operating leases, however, are customarily cancelable by the lessee on short notice and without major penalty. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

### **Operating Facilities**

Our Company (including subsidiaries and branches) had operations on 39 parcels of land, occupying a total area of approximately 1.8 million square meters, as of December 31, 2012. In addition, as of December 31, 2012, our Company (including subsidiaries and branches) owned approximately 1,618 buildings with a total gross floor area of approximately 639,802.37 square meters. Our Company and major subsidiaries have obtained the land use rights certificates and building ownership certificates for certain parcels of land and buildings, and are currently in the process of applying for the certificates with respect to the remaining parcels and buildings.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

You should read the following discussion in conjunction with our audited consolidated financial statements, together with the related notes, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with IFRS. This discussion may include forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key information — D. Risk Factors” or in other parts of this Annual Report.

## Overview

Our primary business is the provision of domestic, regional (which includes Hong Kong, Macau and Taiwan) and international passenger and cargo airline services. Our overall capacity on an available tonne kilometer, or ATK, basis increased by 5.7%, from 18,662.5 ATKs in 2011 to 19,721.4 ATKs in 2012, and our passenger capacity on an available seat kilometer, or ASK, basis increased by 6.9%, from 127,890.8 ASKs in 2011 to 136,724.0 ASKs in 2012. Total traffic on a revenue tonne kilometer, or RTK, basis increased by 7.5%, from 13,402.1 RTKs in 2011 to 14,406.5 RTKs in 2012.

The historical results of operations discussed in this Annual Report may not be indicative of our future operating performance. Like those of other airlines, our operations depend substantially on overall passenger and cargo traffic volumes and are subject to seasonal and other variations that may influence passenger travel demand and cargo volume and may not be under our control, including unusual political events, changes in the domestic and global economies and other unforeseen events. Our operations will be affected by, among other things, fluctuations in aviation fuel prices, aircraft acquisition and leasing costs, maintenance expenses, take-off and landing charges, wages, salaries and benefits, other operating expenses and the rates of income taxes paid.

Our financial performance is also significantly affected by factors associated with operating in a highly regulated industry, as well as a number of other external variables, including political and economic conditions in China, competition, foreign exchange fluctuations and public perceptions of the safety of air travel with Chinese airlines. Because nearly every aspect of our airline operations is subject to the regulation of the CAAC, our operating revenues and expenses are directly affected by the CAAC regulations with respect to, among other things, domestic airfares, level of commissions paid to sales agents, the aviation fuel price, take-off and landing charges and route allocations. The nature and extent of airline competition and the ability of Chinese airlines to expand are also significantly affected by various CAAC regulations and policies. Changes in the CAAC's regulatory policies, or in the implementation of such policies, are therefore likely to have a significant impact on our future operations.

## Operating Segments

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

## Acquisitions

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

## A. Operating Results

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

	2008 RMB	Year Ended December 31,			
		2009 RMB	2010 RMB	2011 RMB	2012 RMB
		(in millions, except per share data)			
Summary 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 (costs)/income, 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
Earnings/(loss) per share attributable to the equity shareholders of the Company <sup>(1)</sup>	(3.14 )	0.03	0.44	0.41	0.26

	As of December 31,				
	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2012 RMB
	(in millions)				
Summary 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

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

**2012 Compared to 2011****Revenues**

Our revenues increased by 3.5%, from RMB82,403 million in 2011 to RMB85,253 million in 2012 (net of the applicable PRC business tax). Revenues increased in our passenger business operation, primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights, while revenue decreased in our cargo and mail business operation, primarily due to a general slowdown of the global economy that affected cargo demand and, consequently, our cargo volumes.

In 2012, we transported a total of 73,077 million passengers, representing an increase of 6.3%, from 68,725 million passengers in 2011. Our total passenger traffic (as measured in RPKs) increased by 8.1%, from 100,895 million passenger-kilometers in 2011 to 109,113 million passenger-kilometers in 2012 and our total cargo and mail traffic (as measured in RFTKs) increased by 6.3%, from 4,421 million freight tonne-kilometers in 2011 to 4,701 million freight tonne-kilometers in 2012. Our average yield for our passenger operations decreased by 4.4%, from RMB0.68 per passenger-kilometer in 2011 to RMB0.65 per passenger-kilometer in 2012 primarily due to increased yields resulting the PRC transportation industry-wide conversion from business tax to value-added tax, effective January 1, 2012.

Our average yield for our cargo and mail operations decreased by 6.4%, from RMB1.83 per tonne-kilometer in 2011 to RMB1.71 per tonne-kilometer in 2012, primarily due to the general slowdown of the global economy that affected cargo demand and, consequently, our cargo volumes.

The following chart sets forth our revenue breakdown for 2011 and 2012:

	<b>2012 vs. 2011</b>			
	<b>Year Ended December 2011</b>	<b>Year Ended December 2012</b>	<b>Change</b>	<b>% Increase (Decrease)</b>
	<b>(in millions of RMB)</b>			
Traffic revenues <sup>(1)</sup>	76,514	79,444	2,930	3.8
Passenger	68,434	71,419	2,985	4.4
Passenger revenue excluding fuel surcharges	60,383	61,038	655	1.1
Fuel surcharges	8,051	10,381	2,330	28.9
Cargo and mail	8,080	8,025	(55 )	(0.7 )
Cargo and mail revenue excluding fuel surcharges	5,482	5,237	(245 )	(4.5 )
Fuel surcharges	2,598	2,788	190	7.3
Others <sup>(2)</sup>	5,889	5,809	(80 )	(1.4 )

<b>Total Operating Revenue</b>	82,403	85,253	2,850	3.5
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Before January 1, 2012, the major elements of our revenues were subject to business tax levied at rates of 3% or 5%. Pursuant to the *Notice of Exemption of Business Tax on the Provision of International Transportation Services* (Cai Shui [2010] No. 8), jointly issued by the MOF and the SAT, our revenues from the provision of international transportation services were exempt from business tax as of January 1, 2010. Pursuant to the *Notice of the Pilot Program for the Transformation of Transportation and Certain Modern Service Industries in Shanghai from Business Tax ("BT") to Value Added Tax ("VAT")* (Cai Shui [2011] No. 111), issued by the MOF and SAT (the "Shanghai Notice"), traffic revenue of the Company and subsidiaries located in Shanghai and other revenues (including ground service income, cargo handling income, commission income and certain other income) generated in Shanghai are subjected to VAT levied at rates of 11% or 6% from January 1, 2012, rather than BT rates.

Pursuant to the *Notice of the Pilot Program for the Transformation of Transportation and Certain Modern Service Industries from BT to VAT in Beijing and Eight Other Provinces and Cities* (Cai Shui [2012] No.71), issued by MOF and SAT (the "Beijing Notice" and collectively with the Shanghai Notice, the "Notices"), traffic revenue and other revenues (including ground service income, cargo handling income, commission income and certain other income) generated by subsidiaries located in Beijing and other eight provinces/cities included in the notice are subjected to VAT levied at rates of 11% or 6% with different effective date ranging from September 1, 2012 to December 1, 2012.

VAT generated from purchase of fuel, take-off and landing services, food and beverages, property, plant and equipment, and certain BT paid by the branches of the Company that are beyond the scope of the Notices can be used to deduct the VAT output generated from taxable revenue. The traffic revenue and other revenue generated from operations located in other locations of China will continue to be subject to BT at rates of 3% or 5%. As a result of the implementation of aforementioned Notices and changes from BT to VAT, the relevant results of operations from the affected portions of our operations have been changed to VAT from BT. As such, our revenues for the year ended December 31, 2012 decreased by RMB2,954 million and our operating expenses decreased by RMB3,132 million, which resulted in an increase in profit before income tax of RMB178 million for the year ended December 31, 2012. BT incurred and offset against revenues for the year ended December 31, 2012 amounted to approximately RMB670 million (2011: approximately RMB1,803 million).

(2) Includes ground service income, cargo handling income, commission income and others.

#### *Passenger revenues*

Our passenger traffic revenues increased by RMB2,985 million, or 4.4%, from RMB68,434 million in 2011 to RMB71,419 million in 2012. This increase was primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 70.2% of our total passenger traffic revenues in 2012, increased by 2.4%, from RMB48,963 million in 2011 to RMB50,141 million in 2012. The increase was primarily due to increased flight capacity on domestic routes and steady demand from the continued growth of the PRC economy. Compared to 2011, our domestic passenger traffic (as measured in RPKs) increased by 7.4%, from 70,933 million in 2011 to 76,156 million in 2012. The number of passengers carried on domestic routes increased by 6.1%, from 58.8 million in 2011 to 62.4 million in 2012. Our passenger-kilometers yield for domestic routes decreased from RMB0.69 per passenger-kilometer in 2011 to RMB0.66 per passenger-kilometer in 2012.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for 4.5% of our total passenger traffic revenues in 2012, increased by 4.7%, from RMB3,078 million in 2011 to RMB3,221 million in 2012. The increase was primarily due to increased ticket prices, which led to a increase of 1.1%, from 3,811 million in 2011 to 3,852 million in 2012, in our regional passenger traffic (as measured in RPKs). The number of passengers carried on Hong Kong, Macau and Taiwan routes increased by 3.6%, from 2.7 million in 2011 to 2.8 million in 2012. Our passenger-kilometers yield for regional routes increased from RMB0.81 per passenger-kilometer in 2011 to RMB0.84 per passenger-kilometer in 2012.



International passenger traffic revenues, which accounted for 25.3% of our total passenger traffic revenues in 2012, increased by 10.2%, from RMB16,393 million in 2011 to RMB18,056 million in 2012. The increase was primarily due to increased international passenger demand, increased aircraft utilization rates and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by 11.3% in 2011, from 26,151 million in 2011 to 29,105 million in 2012. The number of passengers carried on international routes increased by 9.1%, from 7.2 million in 2011 to 7.9 million in 2012. Our passenger-kilometers yield for international routes decreased from RMB0.63 per passenger-kilometer in 2011 to RMB0.62 per passenger-kilometer in 2012.

#### *Cargo and mail revenues*

Our cargo and mail traffic revenues decreased by 0.7%, from RMB8,080 million in 2011 to RMB8,025 million in 2012, which accounted for 9.4% of our total operating revenues in 2012. Revenue from cargo and mail traffic via belly-hold cargo space on the Company's passenger aircraft was RMB2,389 million, which accounted for 29.8% of total freight revenue and 3.0% of total traffic revenue in 2012. Cargo and mail yield decreased from RMB1.83 in 2011 to RMB1.71 in 2012 per cargo tonne-kilometer, or 6.56% compared to the same period in 2011, primarily as a result of the general slowdown of the global economy that affected cargo volumes.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for 16.6% of our total cargo and mail traffic revenues in 2012, decreased by 1.3%, from RMB1,350 million in 2011 to RMB1,332 million in 2012. This decrease was primarily due to the increased competition from other cargo carriers which resulted in decreased shipping fees and cargo and mail volume. Our freight tonne-kilometers yield for domestic routes remained RMB1.44 per tonne-kilometer in 2011 and 2012.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for 5.7% of our total cargo and mail traffic revenues in 2012, decreased by 30.9%, from RMB666 million in 2011 to RMB461 million in 2012. This decrease was primarily due to decreased demand in the regional cargo and mail freight market as a result of the general slowdown of the regional freight market. Our freight tonne-kilometers yield for regional routes decreased from RMB4.49 per tonne-kilometer to RMB3.94 per tonne-kilometer.

International cargo and mail traffic revenues, which accounted for 77.7% of our total cargo and mail traffic revenues in 2012, increased by 2.6%, from RMB6,064 million in 2011 to RMB6,233 million in 2012, due to increased demand in the international freight market as a result of the gradual recovery of global economy. Our prices for cargo and mail transportation on international routes also decreased as our freight tonne-kilometers yield for international routes decreased from RMB1.82 per tonne-kilometer in 2011 to RMB1.70 per tonne-kilometer in 2012.

*Other revenues*

We also generated revenues from other services, including airport ground services, cargo handling services and ticket handling services. These services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao International Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao International Airport and Pudong International Airport. Our total other revenues decreased by 1.4%, from RMB5,889 million in 2011 to RMB5,809 million in 2012.

*Operating Expenses*

The following chart sets forth a breakdown of our operating expenses for the years ended December 31, 2011 and 2012:

	<b>2012 vs. 2011</b>			
	<b>Year Ended December 2011</b>	<b>Year Ended December 2012</b>	<b>Change (decrease)</b>	<b>% increase (decrease)</b>
	(in millions of RMB)			
<b>Operating Expenses:</b>				
Aircraft fuel expenses	29,229	29,872	643	2.2
Gain on fair value movements of derivatives financial instruments	(87 )	(25 )	62	(71.4 )
Takeoff and landing charges	8,350	9,066	716	8.6
Depreciation and amortization	6,966	7,557	591	8.5
Wages, salaries and benefits	8,665	10,059	1,394	16.1
Office, administration and others	8,854	8,983	129	1.5
Aircraft maintenance	4,406	4,433	27	0.6
Aircraft operating lease expenses	4,128	4,438	310	7.5
Impairment losses for assets	638	(13 )	(651 )	(102.0 )
Selling and marketing expenses	3,740	3,727	(13 )	(0.3 )
Other	4,403	4,648	245	5.6
<b>Total Operating Expense</b>	<b>79,292</b>	<b>82,745</b>	<b>3,453</b>	<b>4.4</b>

(1) Due to the implementation of the pilot program for the transformation from business tax to value-added tax regarding the transportation industry, certain expenses in 2012 are not comparable to the corresponding expenses in 2011.

Our total operating expenses increased by 4.4%, from RMB79,292 million in 2011 to RMB82,745 million in 2012 primarily due to the expansion of our business which is in line with the increase of our fleet size. Our total operating expenses as a percentage of our revenues slightly increased from 96.2% in 2011 to 97.1% in 2012.

Aircraft fuel expenses increased by 2.2%, from RMB29,229 million in 2011 to RMB29,872 million (based on value-added tax) in 2012. The increase was primarily due to our business expansion and the increase of average aircraft fuel price by 2.1% compared with that of 2011. In 2012, we consumed a total of approximately 4.2 million tonnes of aviation fuel, representing an increase of 7.2% compared to 2011. Aircraft fuel expenses accounted for 36.1% of our total operating expenses in 2012, as compared to 36.9% in 2011. We implemented a policy of transforming business tax to value-added tax in 2012. If calculated in line with the business tax, aviation fuel costs for 2012 will be increased by 9.5% from 2011, and the impact of the increase in the jet fuel price on aviation fuel expenditures was approximately RMB671 million. The increase in aviation fuel consumption resulted in an increase in aviation fuel expenditures of approximately RMB2,111 million.

Changes in fair value of financial derivatives decreased from a gain of RMB87 million in 2011 to a gain of RMB25 million in 2012. The difference was mainly due to the decrease in gains arising from fair value movement of crude oil option contracts, which was resulted from a decrease in the notional amount of unsettled crude oil option. In 2012, the net gain on change in fair value of crude oil option contracts (inclusive of cash outflow upon settlement) was approximately RMB9 million. In 2012, the fair value movements of financial derivatives charged to the income statement accounted for 0.03% of our total operating expenses. Take-off and landing charges, which accounted for 11.0% of our total operating expenses in 2012, increased by 8.6%, from RMB8,350 million in 2011 to RMB9,066 million in 2012, primarily due to an increase in the number of take-off and landings, as well as an increase in average unit price of take-off and landing charges.

Depreciation and amortization increased by 8.5%, from RMB6,966 million in 2011 to RMB7,557 million in 2012, primarily due to the addition of new aircraft and engines by the Group in 2012, resulting in a greater base number for depreciation and amortisation.

Wages, salaries and benefits, which accounted for 12.2% of our total operating expenses in 2012, increased by 16.1%, from RMB8,665 million in 2011 to RMB10,059 million in 2012, primarily due to an increase in the number of staff and the increase in hours flown.

Office, administration and other expenses increased by 1.5%, from RMB8,854 million in 2011 to RMB8,983 million in 2012, primarily due to the expansion of our overall business operations and an increase in the number of staff.

Aircraft maintenance expenses, which accounted for 5.4% of our total operating expenses in 2012, increased by 0.6%, from RMB4,406 million in 2011 to RMB4,433 million in 2012, primarily due to an increase in the number of aircraft held through an operating lease in 2012.

Aircraft operating lease expenses increased by 7.5%, from RMB4,128 million in 2011 to RMB4,438 million in 2012, primarily due to an increase in the number of aircraft that we operate under operating leases.

Impairment losses for assets decreased by 102.0%, from a loss of RMB638 million in 2011 to a reversal of RMB13 million in 2012.

Selling and marketing expenses, which accounted for 4.5% of our total operating expenses in 2012, decreased by 0.33%, from RMB3,740 million in 2011 to RMB3,727 million in 2012.

### ***Other Operating Income***

Our other operating income and other gains were primarily generated from government subsidies. The total amount of our other operating income and other gains increased from RMB1,061 million in 2011 to RMB1,720 million in 2012, primarily due to an increase in government subsidy income in 2012. Other government subsidies represent subsidies granted to us by the PRC government and local governments as well as other subsidies granted by various local municipalities to encourage our Company to operate certain routes to cities where these municipalities are located.

### *Net Finance Costs*

In 2012, our finance income was RMB349 million, a decrease of RMB1,675 million from the same period last year, primarily due to the minimal appreciation of the Renminbi against the U.S. dollar in 2012, which had substantially appreciated in 2011. Finance costs amounted to RMB1,697 million, an increase of RMB235 million, primarily due to an increase in interest expenses arising from increased borrowings and finance leases.

### *Profit attributable to the equity shareholders of the Company*

As a result of the foregoing, the net profit attributable to the equity shareholders of the Company decreased to RMB2,954 million in 2012, or 35.5%, as compared to a net profit of RMB4,576 million in 2011.

### *Fixed Assets*

Our Company had approximately RMB82,519 million of fixed assets and construction in progress as of December 31, 2012, including, among other assets, aircraft, engines and flight equipment, representing a 11.9% increase from RMB73,758 million in 2011.

## **2011 Compared to 2010**

### *Revenues*

Our revenues increased by 11.7%, from RMB73,804 million in 2010 to RMB82,403 million in 2011 (net of the applicable PRC business tax). Revenues increased in our passenger business operation, primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights, while revenue decreased in our cargo and mail business operation, primarily due to the general slowdown of the global economy that affected cargo volumes.

In 2011, we transported a total of 68,725 million passengers, representing an increase of 5.8%, from 64,930 million passengers in 2010. Our total passenger traffic (as measured in RPKs) increased by 8.3%, from 93,153 million passenger-kilometers in 2010 to 100,895 million passenger-kilometers in 2011 and our total cargo and mail traffic (as

measured in RFTKs) increased by 2.6%, from 4,308 million freight tonne-kilometers in 2010 to 4,421 million freight tonne-kilometers in 2011. Our average yield for our passenger operations increased by 7.9%, from RMB0.63 per passenger-kilometer in 2010 to RMB0.68 per passenger-kilometer in 2011 primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights.

Our average yield for our cargo and mail operations decreased by 6.2%, from RMB1.95 per tonne-kilometer in 2010 to RMB1.83 per tonne-kilometer in 2011, primarily due to the general slowdown of the global economy that affected cargo volumes.

The following chart sets forth our revenue breakdown for 2010 and 2011:

	<b>2011 vs. 2010</b>			
	<b>Year Ended December 2010</b>	<b>Year Ended December 2011</b>	<b>Change</b>	<b>% Increase (Decrease)</b>
	(in millions of RMB)			
Traffic revenues <sup>(1)</sup>	67,391	76,514	9,123	13.5
Passenger	58,968	68,434	9,466	16.1
Passenger revenue excluding fuel surcharges	54,625	60,383	5,758	10.5
Fuel surcharges	4,343	8,051	3,708	85.4
Cargo and mail	8,423	8,080	(343 )	(4.1 )
Cargo and mail revenue excluding fuel surcharges	5,810	5,482	(328 )	(5.6 )
Fuel surcharges	2,613	2,598	(15 )	(0.6 )
Others <sup>(2)</sup>	6,413	5,794	(619 )	(10.4 )
<b>Total Operating Revenue</b>	<b>73,804</b>	<b>82,403</b>	<b>8,599</b>	<b>11.7</b>

Pursuant to relevant tax rules and regulations in the PRC, the major elements of the Company's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to business tax levied at rates of 3% or 5%. Pursuant to the notice of exemption of business tax on the provision of international (1) transportation services (Cai Shui [2010] No. 8), jointly issued by the Ministry of Finance and the State Tax Bureau, our revenues from the provision of international transportation services were exempt from business tax as of 1 January 2010. The business tax incurred and set off against the above revenues for the year ended December 31, 2011 amounted to approximately RMB1,803 million (2010: RMB1,463 million).

- (2) Includes ground service income, cargo handling income, commission income and others.

### *Passenger revenues*

Our passenger traffic revenues increased by RMB9,466 million, or 16.1%, from RMB58,968 million in 2010 to RMB68,434 million in 2011. The increase was primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 71.6% of our total passenger traffic revenues in 2011, increased by 16.2%, from RMB42,143 million in 2010 to RMB48,963 million in 2011. The increase was primarily due to increased ticket prices, increased flight capacity on domestic routes and steady demand from the continued growth of the PRC economy. Compared to 2010, our domestic passenger traffic (as measured in RPKs) increased by 7.0%, from 66,310 million in 2010 to 70,933 million in 2011. The number of passengers carried on domestic routes increased by 6.0%, from 55.5 million in 2010 to 58.8 million in 2011. Our passenger-kilometers yield for domestic routes increased from RMB0.64 per passenger-kilometer in 2010 to RMB0.69 per passenger-kilometer in 2011.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for 4.5% of our total passenger traffic revenues in 2011, decreased by 3.1%, from RMB3,176 million in 2010 to RMB3,078 million in 2011. The decrease was primarily due to reduced flight capacity on our Hong Kong routes resulting from reduced flights to and from Hong Kong, as well as increased competition on our Hong Kong routes, which led to a decrease of 6.5%, from 4,074 million in 2010 to 3,811 million in 2011, in our regional passenger traffic (as measured in RPKs). The number of passengers carried on Hong Kong, Macau and Taiwan routes decreased by 5.5%, from 2.9 million in 2010 to 2.7 million in 2011. Our passenger-kilometers yield for regional routes increased from RMB0.78 per passenger-kilometer in 2010 to RMB0.81 per passenger-kilometer in 2011.

International passenger traffic revenues, which accounted for 24.0% of our total passenger traffic revenues in 2011, increased by 20.1%, from RMB13,650 million in 2010 to RMB16,393 million in 2011. The increase was primarily due to increased international passenger demand, increased aircraft utilization rates and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by 14.9% in 2011, from 22,769 million in 2010 to 26,151 million in 2011. The number of passengers carried on international routes increased by 9.8%, from 6.6 million in 2010 to 7.2 million in 2011. Our passenger-kilometers yield for international routes increased from RMB0.60 per passenger-kilometer in 2010 to RMB0.63 per passenger-kilometer in 2011.

### *Cargo and mail revenues*

Our cargo and mail traffic revenues decreased by 4.1%, from RMB8,423 million in 2010 to RMB8,080 million in 2011, which accounted for 10.6% of our total traffic revenues in 2011. Revenue from cargo and mail traffic via belly-hold cargo space on the Company's passenger aircraft was RMB2,998 million, which accounted for 37.1% of total freight revenue and 3.9% of total traffic revenue in 2011. Cargo and mail yield decreased from RMB1.95 in 2010 to RMB1.83 in 2011 per cargo tonne-kilometer, or 6.2% compared to the same period in 2010, primarily as a result of the general slowdown of the global economy that affected cargo volumes.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for 16.7% of our total cargo and mail traffic revenues in 2011, increased by 7.4%, from RMB1,257 million in 2010 to RMB1,350 million in 2011. This increase was primarily due to the continued economic growth in China which resulted in increased cargo and mail volume and demand. Our freight tonne-kilometers yield for domestic routes increased from RMB1.28 per tonne-kilometer in 2010 to RMB1.44 per tonne-kilometer in 2011.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for 8.2% of our total cargo and mail traffic revenues in 2011, decreased by 5.7%, from RMB706 million in 2010 to RMB666 million in 2011. This decrease was primarily due to decreased demand in the regional cargo and mail freight market as a result of the general slowdown of the regional freight market. Our freight tonne-kilometers yield for regional routes decreased from RMB4.54 per tonne-kilometer to RMB4.49 per tonne-kilometer.

International cargo and mail traffic revenues, which accounted for 75.1% of our total cargo and mail traffic revenues in 2011, decreased by 6.1%, from RMB6,460 million in 2010 to RMB6,064 million in 2011, due to reduced demand in the international freight market as a result of decreased global economic activity. Our prices for cargo and mail transportation on international routes also increased as our freight tonne-kilometers yield for international routes decreased from RMB2.04 per tonne-kilometer in 2010 to RMB1.82 per tonne-kilometer in 2011.

#### *Other revenues*

We also generated revenues from other services, including airport ground services, cargo handling services and ticket handling services. These services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao International Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao International Airport and Pudong International Airport. Our total other revenues decreased by 10.4%, from RMB6,413 million in 2010 to RMB5,749 million in 2011, as a result of decreased cargo handling income.

#### *Operating Expenses*



The following chart sets forth a breakdown of our operating expenses for the years 2010 and 2011:

	Year Ended		2011 vs. 2010	
	December 31, 2010	December 31, 2011	Increase (decrease)	% increase (decrease)
(in millions of RMB)				
<b>Operating Expenses:</b>				
Aircraft fuel expenses	21,606	29,229	7,623	35.3
Gain on fair value movements of derivatives financial instruments	(833 )	(87 )	746	(89.6 )
Takeoff and landing charges	7,455	8,350	895	12.0
Depreciation and amortization	6,758	6,966	208	3.7
Wages, salaries and benefits	8,941	8,665	(276 )	(3.1 )
Office, administration and others	8,588	8,854	266	3.1
Aircraft maintenance	4,614	4,406	(208 )	(4.51 )
Aircraft operating lease expenses	3,976	4,128	153	3.9
Impairment losses for assets	405	638	233	57.5
Selling and marketing expenses	3,324	3,740	416	12.5
Other	3,931	4,403	472	12.0
<b>Total Operating Expense</b>	<b>68,765</b>	<b>79,292</b>	<b>10,527</b>	<b>15.3</b>

Our total operating expenses increased by 15.3%, from RMB68,765 million in 2010 to RMB79,292 million in 2011 primarily due to the substantial increase of the aircraft fuel expenses. Our total operating expenses as a percentage of our revenues increased from 93.2% in 2010 to 96.2% in 2011.

Aircraft fuel expenses increased by 35.3%, from RMB21,606 million in 2010 to RMB29,229 million in 2011. The increase was primarily due to our business expansion and the increase of average aircraft fuel price by 27.4% compared with that of 2010. In 2011, we consumed a total of approximately 3.9 million tonnes of aviation fuel, representing an increase of 6.2% compared to 2010. Aircraft fuel expenses accounted for 31.4% of our total operating expenses in 2011, as compared to 36.9% in 2010.

Changes in fair value of financial derivatives decreased from a gain of RMB833 million in 2010 to a gain of RMB87 million in 2011. The difference was mainly due to the decrease in gains arising from fair value movement of crude oil option contracts, which was resulted from a decrease in the notional amount of unsettled crude oil option. In 2011, the net gain on change in fair value of crude oil option contracts (inclusive of cash outflow upon settlement) was approximately RMB67 million. In 2011, the fair value movements of financial derivatives charged to the income statement accounted for 0.1% of our total operating expenses.

Take-off and landing charges, which accounted for 10.5% of our total operating expenses in 2011, increased by 12.0%, from RMB7,455 million in 2010 to RMB8,350 million in 2011, primarily due to an increase in scheduled flights.

Depreciation and amortization increased by 3.1%, from RMB6,758 million in 2010 to RMB6,966 million in 2011, primarily due to increased number of aircraft in our fleet and increased aircraft utilization rates, which resulted in the corresponding costs.

Wages, salaries and benefits, which accounted for 10.9% of our total operating expenses in 2011, decreased by 3.1%, from RMB8,941 million in 2010 to RMB8,665 million in 2011, primarily due to reduced staff bonuses resulting from reduced operating profits in 2011, as well as various cost-saving measures that we implemented.

Office, administration and other expenses increased by 3.1%, from RMB8,588 million in 2010 to RMB8,854 million in 2011, primarily due to the expansion of our overall business operations.

Aircraft maintenance expenses, which accounted for 5.6% of our total operating expenses in 2011, decreased by 4.5%, from RMB4,614 million in 2010 to RMB4,406 million in 2011, primarily due to the reduced number of aircraft and

engines that required scheduled major overhaul services.

Aircraft operating lease expenses increased by 3.8%, from RMB3,976 million in 2010 to RMB4,128 million in 2011, primarily due to an increase in the number of aircraft that we operate under operating leases.

Impairment losses for assets increased by 57.5%, from a loss of RMB405 million in 2010 to a loss of RMB638 million in 2011, primarily due to impairment provisions made for certain aircraft to be disposed of in 2012, which referenced the contracted selling price less costs to sell. We have planned to dispose of these aircraft in an effort to increase the operational efficiency of, and reduce the related maintenance fees for, our fleet.

Selling and marketing expenses, which accounted for 4.7% of our total operating expenses in 2011, increased by 12.5%, from RMB3,324 million in 2010 to RMB3,740 million in 2011, primarily a result of increases in ticketing system service fees and agency handling fees due to increases in traffic revenue.

#### ***Other Operating Income***

Our other operating income and other gains were primarily generated from government subsidies and gains on disposal of aircraft and relevant assets. The total amount of our other operating income and other gains increased from RMB658 million in 2010 to RMB1,061 million in 2011, primarily due to an increase in government subsidy income in 2011. Other government subsidies represent subsidies granted to us by the PRC government and local government as well as other subsidies granted by various local municipalities to encourage our Company to operate certain routes to cities where these municipalities are located.

#### ***Net Finance Costs***

Our finance costs (net of finance income) decreased by 2.6%, from RMB1,502 million in 2010 to RMB1,463 million in 2011, primarily due to improvement in our capital structure and a reduction on the interest rates of our foreign currency borrowings. Approximately 69.1% of our indebtedness is U.S. dollar denominated borrowings, which are generally tied to LIBOR rates. In 2011, our finance income was RMB2,024 million, primarily due to the increase in exchange gain resulting from the appreciation of the Renminbi against the U.S. dollar.

#### ***Profit / (Loss) attributable to the equity shareholders of the Company***

As a result of the foregoing, the net profit attributable to the equity shareholders of the Company increased to RMB4,576 million in 2011, representing a 7.7% decrease as compared to a net profit of RMB4,958 million in 2010.

***Fixed Assets***

Our Company had approximately RMB73,758 million of fixed assets and construction in progress as of December 31, 2011, including, among other assets, aircraft, engines and flight equipment, representing a 7.2% increase from RMB68,822 million in 2010.

**B. Liquidity and Capital Resources**

We typically finance our working capital requirements through a combination of funds generated from operations, short-term bank loans and the issuance of corporate bonds. As a result, our liquidity could be materially and adversely affected to the extent there is a significant decrease in demand for our services or if there is any delay in obtaining bank loans.

As of December 31, 2010, 2011 and 2012, we had RMB3,078 million, RMB3,861 million and RMB2,512 million, respectively, in cash and cash equivalents; RMB38,566 million, RMB41,775 million and RMB45,736 million, respectively, in outstanding borrowings; and RMB1,486 million, RMB278 million and RMB69 million, respectively, in restricted bank deposits. Our cash and cash equivalents primarily consist of cash on hand and deposits that are placed with banks and other financial institutions. We plan to use the remaining available cash for other capital expenditures, including expenditures for aircraft, engines and related equipment, as well as for working capital and other day-to-day operating purposes.

As of December 31, 2012, our accumulated losses amounted to approximately RMB5,426 million. In addition, our current liabilities exceeded our current assets by approximately RMB35,948 million. As a consequence, our Directors have taken active steps to seek additional sources of financing to improve our liquidity position. As of December 31, 2012, we had total credit facilities of RMB41.2 billion from various banks, of which RMB27.1 billion are not utilized. See the discussion below under “– Working Capital and Liabilities”.

We believe that our current cash, cash equivalents, short-term and long-term borrowings and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions that we may decide to pursue.

### **Cash Flows from Operating Activities**

In 2012, we generated a net cash inflow from operating activities of RMB12,617 million as a result of cash generated from operations of RMB12,823 million less income tax we paid in 2012. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB13,770 million and negative changes in working capital of RMB947 million. The operating profit before working capital changes of RMB13,770 million was a result of the profit before income tax of RMB3,012 million, mainly adjusted for: (i) depreciation of property, plant and equipment of RMB7,509 million, (ii) interest expenses of RMB1,697 million, (iii) consumption of flight equipment spare parts of RMB747 million, (iv) provision for return condition checks for aircraft and engines under operating leases of RMB793 million and partly offset by net foreign exchange gains of RMB201 million. Negative changes in working capital mainly consisted of (i) an increase in flight equipment and spare parts of RMB1,176 million, (ii) a decrease in trade payables and notes payables of RMB428 million, (iii) a decrease in other long-term liabilities of RMB384 million and (iv) a decrease in provision for return condition checks for aircraft and engines under operating leases of RMB293 million. These negative changes were partly offset by (i) a decrease in restricted bank deposits and short-term bank deposits of RMB1,168 million, (ii) an increase in trade payables and notes payables of RMB388 million. .

In 2011, we generated a net cash inflow from operating activities of RMB13,623 million as a result of cash generated from operations of RMB13,781 million less income tax we paid in 2011. Our cash generated from operations was

mainly due to operating profit before working capital changes of RMB13,751 million and changes in working capital of RMB30 million. The operating profit before working capital changes of RMB13,751 million was a result of the profit before income tax of RMB4,841 million, mainly adjusted for: (i) depreciation of property, plant and equipment of RMB6,912 million, (ii) interest expenses of RMB1,463 million, (iii) consumption of flight equipment spare parts of RMB 740 million, (iv) provision for return condition checks for aircraft and engines under operating leases of RMB695 million and (v) impairment loss of RMB638 million, partly offset by net foreign exchange gains of RMB1,872 million. Changes in working capital mainly consisted of (i) an increase in other payables and accrued expenses of RMB1,681 million, (ii) an increase in prepayments, deposits and other receivables of RMB668 million and (iii) an increase in sales in advance of carriage of RMB620 million. These negative changes were partly offset by (i) a decrease in trade payables and notes payables of RMB1,602 million, (ii) a decrease in flight equipment and spare parts of RMB1,023 million and (iii) a decrease in provision for return condition checks for aircraft and engines under operating leases of RMB317 million.

In 2010, we generated a net cash inflow from operating activities of RMB10,641 million as a result of cash generated from operations of RMB10,740 million less income tax we paid in 2010. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB13,585 million and negative changes in working capital of RMB2,845 million. The operating profit before working capital changes of RMB13,585 million was a result of the profit before income tax of RMB5,418 million, mainly adjusted for: (i) depreciation of property, plant and equipment of RMB6,727 million, (ii) interest expenses of RMB1,502 million, (iii) consumption of flight equipment spare parts of RMB601 million, and (iv) provision for return condition checks for aircraft and engines under operating leases of RMB586 million, partly offset by (i) net foreign exchange gains of RMB1,075 million and (ii) gains arising from fair value movements of derivative financial instruments of RMB915 million. Negative changes in working capital mainly consisted of (i) a decrease in trade payables and notes payables of RMB3,418 million, (ii) a decrease in flight equipment and spare parts of RMB777 million and (iii) a decrease in provision for return condition checks for aircraft and engines under operating leases of RMB306 million. These negative changes were partly offset by (i) an increase in sales in advance of carriage of RMB847 million and (ii) an increase in other long-term liabilities of RMB570 million.

### **Cash Flows from Investing Activities**

In 2012, our net cash outflow from investing activities was RMB11,789 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of new aircraft of RMB7,329 million and (ii) increased property, plant and equipment of RMB6,148 million, primarily due to the purchase of 31 aircraft in 2012. These cash outflows were partly offset by (i) proceeds of short-term deposits with original maturities over three months of RMB958 million, (ii) interest received on bank deposit of RMB216 million, and (iii) proceeds from disposal of property, plant and equipment of RMB182 million.

In 2011, our net cash outflow from investing activities was RMB14,939 million. Our net cash outflow for investing activities mainly consisted of (i) additions of property, plant and equipment of RMB5,368 million, primarily due to the purchase of 24 aircraft in 2011, (ii) advanced payments on acquisition of new aircraft of RMB8,180 million, and (iii) payment of short-term deposits with original maturity over three months of RMB1,963 million. These cash outflows were partly offset by (i) proceeds from disposal of non-current assets held for sale of RMB412 million and (ii) bank deposit interest received of RMB147 million.

In 2010, our net cash outflow from investing activities was RMB8,633 million. Our net cash outflow for investing activities mainly consisted of (i) additions of property, plant and equipment of RMB6,523 million, primarily due to the purchase of 25 aircraft in 2010, (ii) advanced payments on acquisition of new aircraft of RMB3,462 million, and (iii) payment of short-term deposits with original maturity over three months of RMB434 million. These cash outflows were partly offset by (i) net cash acquired through acquisition of Shanghai Airlines Co., Ltd, (ii) proceeds from disposal of non-current assets held for sale of RMB430 million and (iii) proceeds from disposal of property, plant and equipment of RMB102 million.

### **Cash Flows from Financing Activities**

In 2012, our net cash outflow from financing activities was RMB2,174 million. Our net cash outflow for financing activities mainly consisted of (i) repayments of short-term bank loans of RMB25,620 million, (ii) repayments of long-term bank loans of RMB8,352 million, (iii) principal repayments of financial lease obligations of RMB4,095 million, (iv) interest paid of RMB1,937 million, and (v) acquisition of non-controlling interests of RMB671 million. These cash outflows were partly offset by (i) proceeds from draw down of short-term bank loans of RMB23,101 million, (ii) proceeds from draw down of long-term bank loans of RMB10,887 million, (iii) proceeds from issuance of short-term debentures of RMB4,000 million, (iv) capital contribution from non-controlling interests of subsidiaries of RMB454 million and (v) receipts of restricted bank deposits of RMB236 million.

In 2011, our net cash inflow from financing activities was RMB2,136 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB19,647 million, (ii) proceeds from draw down of long-term bank loans of RMB5,693 million, (iii) proceeds from issuance of bonds of RMB2,490 million, (iv) Receipts of restricted bank deposits of RMB1,109 million and (v) capital contribution from non-controlling interests of subsidiaries of RMB1,005 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB18,514 million, (ii) repayments of long-term bank loans of RMB5,245 million and (iii) principal repayments of financial lease obligations of RMB2,191 million.

In 2010, our net cash outflow from financing activities was RMB652 million. Our net cash outflow for financing activities mainly consisted of (i) repayments of short-term bank loans of RMB21,943 million, (ii) repayments of long-term bank loans of RMB6,527 million and (iii) principal repayments of financial lease obligations of RMB2,201 million. These cash outflows were partly offset by (i) proceeds from draw down of short-term bank loans of RMB20,803 million and (ii) proceeds from draw down of long-term bank loans of RMB11,556 million.

### **Working Capital and Liabilities**

We have, and in the future may continue to have, substantial debts. In addition, we generally operate with a working capital deficit. As of December 31, 2012, our current liabilities exceeded our current assets by RMB35,948 million. In comparison, our current liabilities exceeded our current assets by RMB29,679 million as of December 31, 2011. The increase in our current liabilities in 2012 was primarily due to the increase in the current portion of borrowings. The decrease in our current assets in 2012 was primarily due to a decrease in cash and cash equivalents. Short-term loans outstanding totaled RMB11,454 million and RMB12,880 million as of December 31, 2011 and 2012, respectively. Long-term outstanding bank loans totaled RMB30,321 million and RMB32,856 million as of December 31, 2011 and 2012, respectively.

As of December 31, 2012, our long-term debt to equity ratio was 1.34 to 1. The interest expenses associated with these debts may impair our future profitability. We expect that cash from operations and bank borrowings will be sufficient to meet our operating cash flow requirements, although events that materially and adversely affect our operating results can also have a negative impact on liquidity.

Our consolidated interest-bearing borrowings as of December 31, 2011 and 2012 for the purpose of calculating the indebtedness of our Company, were as follows:

<b>As of December 31,</b>	
<b>2011</b>	<b>2012</b>
<b>(RMB in millions)</b>	



Secured bank loans	14,185	18,393
Unsecured bank loans	27,590	27,343
<b>Total</b>	<b>41,775</b>	<b>45,736</b>

The maturity profile of interest-bearing borrowings of our Company as of December 31, 2011 and 2012 was as follows:

	<b>As of December 31,</b>	
	<b>2011</b>	<b>2012</b>
	(RMB in millions)	
Within one year	18,171	22,640
In the second year	8,408	7,273
In the third to fifth year inclusive	9,392	7,905
After the fifth year	5,804	7,918
<b>Total</b>	<b>41,775</b>	<b>45,736</b>

As of December 31, 2012, our interest rates relating to short-term borrowings ranged from 1.1% to 6.6%, while our fixed interest rates on our interest-bearing borrowings for long-term bank loans ranged from 4.84% to 6.4%. Our bank loans are denominated in Renminbi, U.S. dollars and Euro. As of December 31, 2012, our total bank loans denominated in Renminbi amounted to RMB13,827 million, while our total bank loans denominated in U.S. dollars amounted to USD5,028 million. 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, listed on the SGX-ST. Our Company guaranteed the bond issue. See Note 33 to the consolidated financial statements for more information on our borrowings.

We have entered into credit facility agreements to meet our future working capital needs. However, our ability to obtain financing may be affected by: (i) our results of operations, financial condition, cash flows and credit ratings; (ii) costs of financing in line with prevailing economic conditions and the status of the global financial markets; and (iii) our ability to obtain PRC government approvals required to access domestic or international financing or to undertake any project involving significant capital investment, which may include one or more approvals from the NDRC, SAFE, MOFCOM and/or the CSRC depending on the circumstances. If we are unable to obtain financing, for whatever reason, for a significant portion of our capital requirements, our ability to acquire new aircraft and to expand our operations may be materially and adversely affected.

### **Capital Expenditures**

As of December 31, 2012, according to the relevant agreements, we expect our capital expenditures for aircraft, engines and related equipment to be in aggregate approximately RMB172,092 million, including RMB26,321 million in 2013 and RMB44,435 million in 2014, in each case subject to contractually stipulated increases or any increase

relating to inflation. We plan to finance our other capital commitments through a combination of funds generated from operations, existing credit facilities, bank loans, leasing arrangements and other external financing arrangements.

**C. Research and Development, Patents and Licenses, etc.**

None.

**D. Trend Information**

Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2012 to December 31, 2012 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**E. Off-balance Sheet Arrangements**

We have not entered into any off-balance sheet arrangements other than our operating lease arrangements:

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated entity;

We have not entered into any obligations under any derivative contracts that are indexed to our own shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements; and

We do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity.

**F. Tabular Disclosure of Contractual Obligations****Contractual Obligations and Commercial Commitments**

The following tables set forth selected information regarding our outstanding contractual and commercial commitments as of December 31, 2012:

	Total	Less Than 1 Year	1-2 Years	2-5 Years	More Than 5 Years
Long-Term Debt <sup>(1)</sup>	32,856	9,760	7,273	7,905	7,918
Capital Leases <sup>(2)</sup>	21,858	2,605	2,704	7,925	8,624
Operating Leases <sup>(3)</sup>	24,580	4,074	3,682	8,313	8,511
Unconditional Purchase Obligations <sup>(4)</sup>	172,092	26,321	44,435	101,336	—
Other Long-term Obligations <sup>(5)(6)</sup>	1,636	—	—	—	—
Post-retirement Benefit Obligations <sup>(5)</sup>	3,260	—	—	—	—
Deferred Tax Liabilities <sup>(5)</sup>	29	—	—	—	—
Short-term Bank Loans <sup>(7)</sup>	12,880	12,880	—	—	—
Interest Obligations	5,239	1,450	864	1,702	1,223
Under Finance Leases	1,920	399	356	761	404
Under Bank Loans	3,319	1,051	508	941	819
Fixed Rate	349	241	108	-	-
Variable Rate <sup>(8)</sup>	2,970	810	400	941	819
Total	274,430	57,090	58,958	127,181	26,276

(1) Excludes interest.

(2) Primarily comprise amounts paid/due under leases for the acquisition of aircraft.

(3) Primarily comprise amounts paid/due under leases for the rental of aircraft, engines and flight equipment.

(4) Primarily comprise capital expenditures.

(5) Figures of payments due by period are not available.

(6) Other long-term obligations include long-term duties and levies payable, and fair value of unredeemed points awarded under our Group's frequent flyer programs.

(7) Short-term bank loans are generally repayable within one year. As of December 31, 2012, the weighted average interest rate of our short-term bank loans was 5.0% per annum (2011: 4.6%).

For our variable rate loans, interest rates range from six month LIBOR + 0.03% to six months LIBOR + 5.3%.

(8) Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2012. A 25 basis points increase in the interest rate would increase interest expenses by RMB123 million.

	Total Amounts Amount of Commitment Expiration Per Period Committed				
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Other Commercial Commitments/Credit Facilities	(RMB in millions)				
Lines of Credit	27,082	7,283	19,799	—	—
Standby Letters of Credit	—	—	—	—	—
Guarantees	—	—	—	—	—
<b>Total</b>	<b>27,082</b>	<b>7,283</b>	<b>19,799</b>	<b>—</b>	<b>—</b>

### Critical Accounting Estimates and Judgments

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

financial year are discussed below.

***Revenue recognition***

The Group recognizes traffic revenues in accordance with the accounting policy stated in Note 2(e) to the financial statements. Unused tickets are recognized in traffic revenues based on current estimates. Management annually evaluates the balance in the SIAC and records any adjustments, which can be material, in the period the evaluation is completed.

These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognizing revenue for any unused air tickets and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which affect the timing of revenue recognition.

***Frequent flyer program***

The Group operates frequent flyer programs that provide travel awards to program members based on accumulated miles. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired. The deferral of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilization of these benefits and estimated fair values of the unredeemed miles. Different judgments or estimates could significantly affect the estimated provision for frequent flyer programs and the results of operations.

***Provision for costs of return condition checks for aircraft under operating leases***

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

***Retirement benefits***

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employees' service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(y) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is disclosed in Note 37 to the financial statements.

***Deferred income tax***

In assessing the amount of deferred tax assets that need to be recognized in accordance with the accounting policy stated in Note 2(j) to the financial statements, the Group considers future taxable income and ongoing prudent and

feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

#### ***Provision for flight equipment spare parts***

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realizable value. The net realizable value is estimated based on current market condition, historical experience and Company's future operation plan for the aircraft and related spare parts. The net realizable value may be adjusted significantly due to the change of market condition and the future plan for the aircraft and related spare parts.

#### ***Depreciation of property, plant and equipment***

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

Except for components related to airframe and engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

#### ***Estimated impairment of property, plant and equipment and intangible assets***

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2(k) and Note 2(m) to the financial statements. The recoverable amounts of cash generating units have been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometers yield level, load factor, aircraft utilization rate and discount rates, etc.

## **Taxation**

We had carried forward tax losses of approximately RMB6,169 million as of December 31, 2012, which can be used to set off against future taxable income between 2013 and 2017.

Prior to 2008, the Company and certain of its subsidiaries located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong District, Shanghai. Under China's EIT Law, which was approved by the National People's Congress on March 16, 2007 and became effective from January 1, 2008, the Company and its Pudong subsidiaries are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to 25% over the next five years from 2008. For the year ended December 31, 2012, the corporate income tax rate applicable to the Company and these subsidiaries was 25%. The net deferred tax position of the Company and its subsidiaries as of December 31, 2012 is insignificant and the change in tax rate has no material impact on our deferred tax position. Except for those subsidiaries that are incorporated in Hong Kong and therefore subject to a Hong Kong corporate income tax rate of 16.5%, other subsidiaries of the Company are generally subject to the PRC standard income tax rate of 25%.



## **Inflation**

In recent years, China has been experiencing increasing levels of inflation. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, increased by approximately 3.3% in 2010, 5.4% in 2011 and in 2.6% in 2012. Although neither inflation nor deflation in the past had any material adverse impact on our results of operations, we cannot assure you that the deflation or inflation of the Chinese economy in the future would not materially and adversely affect our financial condition and results of operations.

## **New Pronouncements**

The following standards, amendments and interpretations to existing standards, which have been published and are relevant to our Company's operations, are mandatory for accounting periods beginning on or after January 1, 2013 or later periods. These new/revised standards and interpretations were not expected to have material impact on the Group's or the Company's financial statements.

· IAS 19 (Amendment) (effective from 1 January 2013)

· IFRS 9 'Financial Instruments' (effective from January 1, 2013)

· IFRS 10 "Consolidated financial statements" (effective from 1 January 2013)

· IFRS 13 "Fair value measurement" (effective from 1 January 2013)

· IAS 1 "Financial statements presentation" (Amendment) (effective from 1 July 2013)

· IFRS 11 "Joint arrangement" (effective from 1 January 2013)

· IAS 28 "Associates and joint ventures" (Revised 2011) (effective from 1 January 2013)

· IFRS 12 "Disclosure of interests in other entities" (effective from 1 January 2013)

**G. Safe Harbor**

See the section headed “Cautionary Statement With Respect To Forward-Looking Statements”.

**Item 6. Directors, Senior Management and Employees****A. Directors and Senior Management**

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

<b>Name</b>	<b>Age</b>	<b>Shares Owned <sup>(1)</sup></b>	<b>Position</b>
Liu Shaoyong	54	-	Chairman of the Board of Directors
Ma Xulun	49	-	Director, President and Vice Chairman
Xu Zhao	44	-	Director
Gu Jiadan	57	-	Director
Li Yangmin	50	3,960 A Shares	Director and Vice President
Tang Bing	46	-	Director and Vice President
Luo Zhuping	60	11,616 A Shares	Director
Sandy Ke-Yaw Liu	65	-	Independent Non-executive Director
Wu Xiaogen	47	-	Independent Non-executive Director
Ji Weidong	56	-	Independent Non-executive Director
Shao Ruiqing	56	-	Independent Non-executive Director
Yu Faming	59	-	Chairman of the Supervisory Committee
Xi Sheng	50	-	Supervisor
Liu Jiashun	56	3,960 A Shares	Supervisor
Feng Jinxiong	51	-	Supervisor
Yan Taisheng	59	-	Supervisor
Shu Mingjiang	45	-	Vice President
Wu Yongliang	50	3,696 A Shares	Vice President and Chief Financial Officer
Tian Liuwen	54	-	Vice President
Wang Jian	40	-	Board Secretary and Joint Company Secretary

## Directors

**Mr. LIU Shaoyong** is currently the Chairman of the Company and president and deputy party secretary of CEA Holding. Mr. Liu joined the civil aviation industry in 1978 and was appointed as vice president of China General Aviation Corporation, deputy director of Shanxi Provincial Civil Aviation Administration of the PRC, general manager of the Shanxi Branch of the Company, and director general of Flight Standard Department of CAAC. Mr. Liu served as President of the Company from December 2000 to October 2002, vice minister of the CAAC from October 2002 to August 2004, president of China Southern Air Holding Company from August 2004 to December 2008, chairman of China Southern Airlines Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from November 2004 to December 2008. In December 2008, Mr. Liu was appointed as president and deputy party secretary of CEA Holding, and became the Chairman of the Company since 3 February 2009. Mr. Liu is also currently the board member of International Air Transport Association, the board member of Association for Relations Across the Taiwan Straits and the vice chairman of the first session of the supervisory committee of China's Listed Companies Association. Mr. Liu graduated from the China Civil Aviation Flight College and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. Mr. Liu holds the title of commanding pilot.

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

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

**Mr. GU Jiadan** is currently a Director of the Company, and vice president and a party member of CEA Holding. Mr. Gu was the assistant to president, and the general manager and the party secretary of the commerce department of Shanghai Airlines Co., Ltd. From May 2005 to August 2009, he was a party member and vice president of Shanghai Airlines Co., Ltd.. From August 2009 to January 2010, he was the acting president of Shanghai Airlines Co., Ltd.. From January 2010 to July 2011, he was vice president and a party member of CEA Holding and the party secretary of Shanghai Airlines. Since July 2011, Mr. Gu has served as the vice president and a party member of CEA Holding. He was appointed a Director of the Company with effect from June 2012. Mr. Gu Jiadan holds a master's degree and is a senior economist.

**Mr. LI Yangmin** is currently a Director, Party Secretary and Vice President of the Company, and a party member of CEA Holding. Mr. Li joined the civil aviation industry in 1985. He was previously deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company, general manager of the aircraft maintenance base of China Eastern Air Northwest Company and vice president of China Eastern Air Northwest Company. Since October 2005, he has also been a Vice President of the Company. He served as Safety Director of the Company from July 2010 to December 2012. He has become a party member of CEA Holding since May 2011. He was appointed the Party Secretary and Director of the Company with effect from June 2011. He was

the chairman of China Cargo Airlines, a subsidiary of the Company, from February 2012 to January 2013. Mr. Li graduated from Northwestern Polytechnical University with a master's degree. He is a qualified senior engineer.

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

**Mr. LUO Zhuping** is currently a Director of the Company. Mr. Luo joined CEA in 1988. He was Deputy Chief and then Chief of the Enterprise Management Department and Deputy Head of the Share System Office of China Eastern Airlines. He served as the Board Secretary of the Company for 15 years from December 1996 to April 2012. He was also the Head of the Board Secretariat of the Company from 1997 to 2008. He was appointed a Director of the Company with effect from June 2004. Mr. Luo has been responsible for domestic and overseas exchange listing and capital management of the Company since 1993. He has gained rich experience in certain value-added measures of an enterprise, such as enterprise reform, stock issuance, corporate governance, merger and acquisition and reorganization. Mr. Luo graduated from Anhui University majoring in Philosophy and Law. He also holds a Master in Global Economics from Eastern China Normal University. He participated in the training program for senior managers of large scale enterprises organized in the U.S. by the State Economic and Trade Commission and Morgan Stanley.

**Mr. Sandy Ke-Yaw LIU** is currently an Independent Non-executive Director of the Company. Mr. Sandy Ke-Yaw Liu joined the civil aviation industry in Taiwan in 1969. He served in China Airlines in various capacities, including airport manager in Honolulu Airport, marketing director for the Americas, general manager for Hawaii District, regional director for Europe, director of corporate planning and director of marketing planning in its Corporate Office in Taiwan. With China Airlines, he also served as vice president for marketing and sales and vice president for commerce, and president in the Corporate Office. In addition, Mr. Liu served as a director of Taiwan Mandarin Airlines, Taiwan Far Eastern Air Transport, Taiwan China Pacific Catering Service and Taiwan Taoyuan International Airport Service Company, as well as chairman of Taiwan Air Cargo Terminal. He relocated to Hong Kong to act as chief operating officer for the Asia Region in Expeditors International of Washington, Inc., a global logistics company. Mr. Liu graduated from Taiwan Shih Hsin University and attended advanced study programs at Stanford University in 1990 and 1993.

**Mr. WU Xiaogen** is currently an Independent Non-executive Director of the Company. Mr. Wu previously served as assistant to the general manager and deputy general manager of the securities department of China Jingu International Trust Investment Company Limited, deputy general manager of the securities management department and general

manager of the institutional management department of China Technology International Trust Investment Company, and head of the audit teaching and research unit and deputy dean of the School of Accountancy of Central University of Finance and Economics. He was chief accountant of China First Heavy Industries from November 2004 to June 2010. He has been a professional external director for central enterprises since June 2010 and holds the title of researcher. Mr. Wu served as an independent non-executive director of China Petroleum & Chemical Corporation (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from May 2010 to May 2012. Mr. Wu is also a director and a member of the Ethics Committee of the Chinese Institute of Certified Public Accountants, an external director of China National Machinery Industry Corporation and an external director of China Three Gorges Corporation. Mr. Wu graduated from the Department of Economics and Management of the Central University of Finance and Economics and also obtained a Doctoral Degree in Economics.

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

**Mr. SHAO Ruiqing** is currently an Independent Non-executive Director of the Company. Mr. Shao was deputy dean and dean of the School of Economics and Management of Shanghai Maritime University. He served as deputy dean at Shanghai Lixin University of Commerce since March 2004, and was also a professor in accounting and mentor to doctoral students. From June 2007 to August 2011, Mr. Shao served as an external supervisor of China Merchants Bank Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange). Mr. Shao served as an independent nonexecutive director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) from June 2008 to May 2012. Mr. Shao was awarded the special allowance by the State Council of the PRC in 1995. He is currently a consultative committee member of the Ministry of Transport of the PRC, as an expert in finance and accounting. Mr. Shao graduated from Shanghai Maritime University, Shanghai University of Finance and Economics and Tongji University with a Bachelor Degree in Economics, and Master and Doctoral Degrees in Management. Mr. Shao has spent two and a half years studying and being senior visiting scholar in the U.K. and Australia.

### **Supervisory Committee**

As required by the PRC Company Law and our Articles of Association, our Company has a supervisory committee (the “Supervisory Committee”), whose primary duty is the supervision of our senior management, including our Board of Directors, managers and senior officers. The Supervisory Committee consists of five supervisors.

**Mr. YU Faming** is currently the Chairman of the Supervisory Committee of the Company, and a party member and the head of party disciplinary inspection group of CEA Holding. Mr. Yu served as deputy head of the Survey and Research Department of the Policy Research Office of the Ministry of Labor and Human Resources of the PRC, head of the Integration Division of the Department of Policy and Regulation of the Ministry of Labour of the PRC, deputy head of the Labor Science Research Institute of the Ministry of Labor of the PRC, deputy head and head of the Labor Science Research Institute of the Ministry of Labor Protection of the PRC and head of the Training and Employment Department of the Ministry of Labor Protection of the PRC. From June 2008 to May 2011, he served as head of the Employment Department of the Ministry of Human Resources and Social Security of the PRC. Since May 2011, he has been party member and head of party disciplinary inspection group of CEA Holding. Since June 2011, he has served as the Chairman of the Supervisory Committee of the Company. Mr. Yu graduated from Shandong University majoring in philosophy. He holds the title of associate research fellow.

**Mr. XI Sheng** is currently a Supervisor of the Company and chief auditor of CEA Holding. Mr. Xi served as the deputy head of the foreign affairs department II of the foreign funds utilization and application audit department and the head of the liaison and reception office of the foreign affairs department of the National Audit Office of the PRC and the deputy head of the PRC Audit Institute. He was also the head of the fixed assets investment audit department of the National Audit Office of the PRC, and the party secretary and a special commissioner of the Harbin office of the National Audit Office of the PRC. He served as the head of the personnel and education department of the National Audit Office of the PRC from January 2007 to September 2009. He was the head of the audit department of CEA Holding from September 2009 to November 2012. Mr. Xi has served as the chief auditor of CEA Holding since September 2009. Mr. Xi is also the council member of China Institute of Internal Audit and a member of International

Institute of Internal Auditors. Mr. Xi graduated from Jiangxi University of Finance and Economics with undergraduate education background. He is a senior auditor.

**Mr. LIU Jiashun** is currently a Supervisor of the Company. Mr. Liu was party secretary, deputy president and secretary of the disciplinary committee of China Aviation Fuel Hainan Company, as well as chairman of the board and president of Hainan Nanyang Air Transport Co., Ltd. He was also the chief director in charge of fuel supply engineering at Haikou's Meilan Airport and served as a director of Meilan Airport Co., Ltd. and the vice chairman of the board and president of Meiya Company. From 1999 to 2007 he was deputy party secretary, and subsequently the secretary of the disciplinary committee of China Aviation Fuel East China Company and he served as the general manager of Shanghai Pudong Airport Fuel Co., Ltd from 2006 to March 2009. Since October 2009, Mr. Liu has served as the party secretary of China Aviation Fuel Huadong Company). He was appointed a Supervisor of the Company in 2000. Mr. Liu received post-graduate education and is qualified as a senior political work instructor.

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

**Mr. YAN Taisheng** is currently a Supervisor and the Vice Chairman of the Labor Union of the Company. Mr. Yan joined the civil aviation industry in 1973, and served as Chief of the Board Secretariat of the General Office of the Company, general manager of Shanghai Civil Aviation Dong Da Industry Company and Deputy Head and Head of the General Office of the Labor Union of the Company. He has been the Vice Chairman of the Labor Union of the Company since 2005. He served as a Supervisor since March 2009. Mr. Yan graduated from East China Normal University.

## **Senior Management**

**Mr. SHU Mingjiang** is currently a Vice President of the Company. Mr. Shu joined the civil aviation industry in 1989. He served as vice president of general affairs of Shanghai Eastern Flight Training Co., Ltd., a subsidiary of the Company, Deputy Head of the Safety Monitoring Division, Vice Manager and subsequently Manager of the Safety Monitoring Department of the Company, Deputy General Manager of the Shanghai Flight Division of the Company and Vice President of the Yunnan Branch of the Company. From November 2006 to December 2009, he was the Chief Pilot and General Manager of the Operating Control Division of the Company. From December 2009 to November 2011, Mr. Shu was President of the Beijing Branch of the Company. He has been a Vice President of the Company since December 2011. Mr. Shu graduated from the Flight College of Civil Aviation Flight University of China, majoring in aviation flying, and obtained a Master in Flight Safety Management jointly held by Civil Aviation



University of China, ENAC, France and ENSICA, France, and an Executive Master of Business Administration (EMBA) degree from School of Management of Fudan University.

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

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

**Mr. WANG Jian** is currently the Board Secretary, Joint Company Secretary and the Head of the Board secretariat of the Company. Mr. Wang joined the Company in 1995 and served as Deputy Head of the Company's office and Deputy General Manager of the Shanghai Business Office of the Company. From September 2006 to May 2009, he was the deputy general manager in the Shanghai Base of China Southern Airlines Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange). Since May 2009, he has served as the Head of the Board secretariat of the Company. He was a representative of the Company's Securities affairs from May 2009 to April 2012. He was appointed as the Board Secretary and Joint Company Secretary of the Company in April 2012. Mr. Wang graduated from Shanghai Jiao Tong University and has an MBA postgraduate degree from East China University of Science and Technology and an EMBA degree from Tsinghua University as well as a qualification certificate for board secretaries of listed companies issued by the Shanghai Stock Exchange.

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

## **B. Compensation**

The aggregate amount of cash compensation paid by us to our Directors, supervisors and the senior management during 2012 for services performed as Directors, supervisors and officers or employees of our Company was

approximately RMB6.7 million. In addition, Directors and supervisors who are also officers or employees of our Company receive certain other in-kind benefits which are provided to all of our employees. Our Company does not have any bonus or profit sharing plan or any stock option plan.

Details of the emoluments paid to our Directors, supervisors and senior management for the year 2012 are as follows:

Name and Principal Position	2012		
	Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Directors			
Liu Shaoyong*	—	—	—
Ma Xulun	697	—	697
Xu Zhao*&**	—	—	—
Gu Jiadan*&**	—	—	—
Li Yangmin	625	—	625
Tang Bing**	592	—	592
Luo Zhuping	402	—	402
Independent non-executive Directors			
Wu Xiaogen	—	—	—
Ji Weidong	120	—	120
Shao Ruiqing	120	—	120
Sandy Ke-Yaw Liu	97	—	97
Supervisors			
Yu Faming*	—	—	—
Xi Sheng*&**	—	—	—
Liu Jiashun	—	—	—
Feng Jinxiong	396	—	396
Yan Taisheng	344	—	344
Senior Management			
Tang Bing	592	—	592
Shu Mingjiang	1,268	—	1,268
Wu Yongliang	544	—	544
Tian Liuwen	544	—	544
Wang Jian**	386	—	386
Total	6,727	—	6,727

Certain Directors and supervisors of our Company received emoluments from CEA Holding, our parent company, \*part of which is in respect of their services to our Company and our subsidiaries. No apportionment has been made as it is impracticable to apportion this amount between their services to our Company and their services to CEA Holding.

\*\* These directors, supervisors and senior management of the Company were newly appointed during the year ended December 31, 2012.

During the year ended December 31, 2012, no Directors or supervisors waived their compensation.

### C. Board Practices

All of our Directors and supervisors serve a term of three years or until such later date as their successors are elected or appointed. Directors and supervisors may serve consecutive terms. Two of the supervisors are employee representatives appointed by our employees, and the rest are appointed by the shareholders. The following table sets forth the number of years our current Directors, executive officers and supervisors have held their positions and the expiration of their current term.

Name	Position	Held Position Since	Expiration of Term
Liu Shaoyong	Chairman of the Board of Directors	June 28, 2010	June 28, 2013
Ma Xulun	Vice Chairman	November 11, 2011	June 28, 2013
	President	June 28, 2010	June 28, 2013
Xu Zhao	Director	June 28, 2012	June 28, 2013
Gu Jiadan	Director	June 28, 2012	June 28, 2013
Li Yangmin	Director	June 29, 2011	June 28, 2013
	Vice President	June 28, 2010	June 28, 2013
Tang Bing	Director	June 28, 2012	June 28, 2013
	Vice President	June 28, 2010	June 28, 2013
Luo Zhuping	Director	June 28, 2010	June 28, 2013
Sandy Ke-Yaw Liu	Independent non-executive Director	June 28, 2010	June 28, 2013
Wu Xiaogen	Independent non-executive Director	June 28, 2010	June 28, 2013
Ji Weidong	Independent non-executive Director	June 28, 2010	June 28, 2013
Shao Ruiqing	Independent non-executive Director	June 28, 2010	June 28, 2013
Yu Faming	Chairman of the Supervisory Committee	June 29, 2011	June 28, 2013
Xi Sheng	Supervisor	June 28, 2012	June 28, 2013
Liu Jiashun	Supervisor	June 28, 2010	June 28, 2013
Feng Jinxiong	Supervisor	June 28, 2010	June 28, 2013
Yan Taisheng	Supervisor	June 28, 2010	June 28, 2013
Shu Mingjiang	Vice President	December 13, 2011	June 28, 2013
Wu Yongliang	Vice President	December 13, 2011	June 28, 2013
	Chief Financial Officer	June 28, 2010	June 28, 2013
Tian Liuwen	Vice President	December 13, 2011	June 28, 2013
Wang Jian	Board Secretary and Joint Company Secretary	April 6, 2012	June 28, 2013

None of our Directors, supervisors or members of our senior management has entered into any agreement or reached any understanding with us requiring our Company to pay any benefits as a result of termination of their services.

#### Audit and Risk Management Committee

Our Board of Directors established the audit committee in August 2000 in accordance with the listing rules of the Hong Kong Stock Exchange. On August 10, 2009, our Board of Directors approved a resolution to change the audit committee to the audit and risk management committee. On March 19, 2010, the Board of our Company approved the appointment of Mr. Wu Xiaogen and Mr. Ji Weidong to serve as members of the audit and risk management committee, whereas Mr. Hu Honggao and Mr. Zhou Ruijin ceased to be members of the audit and risk management committee. Mr. Shao Ruiqing serves as the chairman of the audit and risk management committee. All of the members of the audit and risk management committee are independent non-executive directors. Our audit and risk management committee satisfies the requirements of Rule 10A-3 of the Exchange Act and NYSE Rule 303A.06 relating to audit committees, including the requirements relating to independence of the audit committee members.

The audit and risk management committee is authorized to, among other things, examine our internal control system, review auditing procedures and financial reports with our auditors, evaluate the overall risk management and corporate governance of our Company and prepare relevant recommendations to our Board of Directors. Subject to the approval of the shareholders' meeting, the audit and risk management committee of our Company is also directly responsible for the appointment, compensation, retention and oversight of our external auditors, including resolving disagreements between management and the auditor regarding financial reporting. The external auditors report directly to the audit and risk management committee. The audit and risk management committee holds at least three meetings each year. The audit and risk management committee has established procedures for the receipt, retention and treatment of complaints received by our Company regarding accounting, internal controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The audit and risk management committee has the authority to engage independent counsel and other advisors, as it determines necessary, to carry out its duties. Our Company provides appropriate funding, as determined by the audit and risk management committee, for payment of compensation to the external auditors, advisors employed by the audit committee, if any, and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties. The audit and risk management committee held eight meetings in 2012.

### **Nominations and Remuneration Committee**

On June 29, 2007, the fifth session of the Board of the Company held the first meeting for 2007 and initially appointed Mr. Zhou Ruijin, Mr. Luo Chaogeng and Mr. Wu Baiwang as the remuneration and appraisal committee of the Company (the "Remuneration and Appraisal Committee"), and Mr. Zhou Ruijin was elected as the chairman of the Remuneration and Appraisal Committee. On March 19, 2010, the Board of the Company passed a resolution to merge the Nominations Committee of our Company and the Remuneration and Appraisal Committee to form the Nominations and Remuneration Committee. On March 19, 2010, the Board approved the appointment of Mr. Liu Shaoyong, Mr. Sandy Ke-Yaw Liu and Mr. Ji Weidong as the members of the Nominations and Remuneration Committee of the fifth session of the Board. Mr. Liu Shaoyong was elected as the chairman of the Nominations and Remuneration Committee. On April 27, 2012, we amended the Detailed Working Rules for the Nominations and Remuneration Committee, with retroactive effect from April 1, 2012. For remuneration related matters considered and approved by the Nominations and Remuneration Committee, duties of the Chairman shall be performed by an independent non-executive director from among the members of the Nominations and Remuneration Committee. See the announcement furnished to the SEC on Form 6-K dated April 27, 2012.

The Nominations and Remuneration committee is authorized to determine standards and procedures for the nomination of Directors and senior management of the Company, examine the remuneration policies of Directors and senior management of the Company, review the performance of our Directors and senior management as well as determine their annual compensation level. The Nominations and Remuneration Committee submits to our Board of Directors or shareholders' meeting for approval compensation plans and oversee the implementation of approved compensation plans. The Nominations and Remuneration Committee may consult financial, legal or other outside professional firms in carrying out its duties. Prior to the establishment of the Nominations and Remuneration Committee, the Remuneration and Appraisal Committee did not hold any meetings in 2009. Under the guidance of the Remuneration and Appraisal Committee, we renewed liability insurance for our Directors, supervisors and senior management in August 2009. The Nominations and Remuneration Committee held five meetings in 2012.

We follow our home country practice in relation to the composition of our Nominations and Remuneration Committee in reliance on the exemption provided under NYSE Corporate Governance Rule 303A.00 available to foreign private issuers. Our home country practice does not require us to establish a remuneration committee composed entirely of independent directors.

### **Planning and Development Committee**

As of December 31, 2012, the three members of the Planning and Development Committee were Mr. Li Yangmin, Mr. Luo Zhuping and Mr. Shao Ruiqing. Mr. Li Yangmin is the Chairman of the committee. On June 29, 2011, the Board of our Company approved the appointment of Mr. Li Yangmin to serve as a member and the Chairman of the Planning and Development Committee, whereas Mr. Luo Chaogeng ceased to be the member of the Planning and Development Committee.

The Planning and Development Committee, a specialized committee under our Board of Directors, is responsible for studying, considering, and developing plans and making recommendations with regard to the long-term development plans and material investment decisions of the Company. The members of the committee also oversee the implementation of such plans. The Planning and Development Committee held seven meetings in 2012.

### **Aviation Safety and Environment Committee**

As of December 31, 2012, the three members of the Aviation Safety and Environment Committee were Mr. Ma Xulun, Mr. Sandy, Ke-Yaw Liu and Mr. Li Yangmin. Mr. Ma Xulun is the Chairman of the committee. On June 29, 2011, the Board of our Company approved the appointment of Mr. Li Yangmin to serve as a member of the Aviation Safety and Environment Committee, whereas Mr. Luo Chaogeng ceased to be the member of the Aviation Safety and Environment Committee.

The Aviation Safety and Environment Committee, a specialized committee under our Board of Directors, is responsible for consistent implementation of relevant laws or regulations regarding national aviation safety and environmental protection, examining and overseeing the aviation safety management of the Company, studying, considering and making recommendations with regard to aviation safety duty plans and significant issues resulting from related safety duties as well as implementing such safety duty plans. In addition, the Aviation Safety and Environment Committee performs studies, and makes recommendations on significant environmental protection issues, including carbon emissions on our domestic and international aviation routes and carbon emission programs, and overseeing their implementation. The Aviation Safety and Environment Committee held two meetings in 2012.



## **D. Employees**

Through arrangements with CEA Holding and others, we provide certain benefits to our employees, including housing, retirement benefits and hospital, maternity, disability and dependent medical care benefits. Our Company does not have any bonus or profit sharing plan or any stock option plan. See Notes 37 and 38 to our audited consolidated financial statements. Our employees are members of a labor association which represents employees with respect to labor disputes and certain other employee matters. We believe that we maintain good relations with our employees and with their labor association.

The table below sets forth the number of our employees as of December 31, 2010, 2011 and 2012, respectively:

	As of December 31,		
	2010	2011	2012
Pilots	4,587	4,601	5,562
Flight attendants	7,200	7,327	7,715
Maintenance personnel	10,446	10,635	12,698
Sales and marketing	4,105	4,183	3,960
Management and others <sup>(1)</sup>	30,758	33,126	36,272
Management	6,259	6,291	5,462
Ground Services and others	24,499	26,835	30,810
Total	57,096	59,872	66,207

Others include outsourced non-skilled and semi-skilled personnel employed by third-party employment staffing (1) companies and other entities. These personnel remain employees of their respective employment staffing company or other entity.

## **E. Share Ownership**

See Item 6.A and Item 6.B above.

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders**

The following table sets forth certain information regarding ownership of our capital stock as of December 31, 2012 by all persons who were known to us to be the beneficial owners of 5% or more of our capital stock:

Title of Class	Identity of Person or Group	Amount Owned	Percent of Class	Percent of Total Shares	
Domestic A Shares	CEA Holding	4,831,375,000	62.08	%	42.84 %
H Shares	CEA Holding <sup>(1)</sup>	1,927,375,000	55.16	%	17.09 %
H Shares	HKSCC Nominees Limited <sup>(2)</sup>	3,478,100,299	99.54	%	30.85 %

<sup>(1)</sup> Such H shares were held by CES Global Holdings (Hong Kong) Limited (“CES Global”), in the capacity of beneficial owner, which in turn was 100% held by CEA Holding.

As custodian of the Depository for American Depositary Shares representing H Shares. Amount of shares owned <sup>(2)</sup> by HKSCC Nominees Limited also includes 1,927,375,000 H shares held by CES Global, of which 1,437,375,000 H shares are subject to a trading moratorium until June 26, 2012.

As of December 31, 2012, CEA Holding directly or indirectly held 59.93% of our issued and outstanding capital stock, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

As of December 31, 2012, there were 3,494,325,000 H Shares issued and outstanding. As of December 31, 2012 and April 19, 2013, there were, respectively, 42 and 41 registered holders of American depository receipts evidencing 1,194,494 and 1,089,374 ADSs, respectively. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

Our Company is currently a majority-owned subsidiary of CEA Holding. CEA Holding itself is a wholly state-owned enterprise under the administrative control of China State-owned Assets Supervision and Administration Commission, or SASAC. CEA Holding's shareholding in our Company is in the form of ordinary domestic shares, through which it, under the supervision of the SASAC, enjoys shareholders' rights and benefits on behalf of the PRC government.

## **B. Related Party Transactions**

### *Relationship with CEA Holding and Associated Companies*

We enter into transactions from time to time with CEA Holding and its subsidiaries. For a description of such transactions, see Note 46 to our audited consolidated financial statements.

### *Related Business Transactions*

As our Company and EA Group and its subsidiaries were a single group prior to the restructuring in 2002, certain arrangements among us have continued after the restructuring and the establishment of CEA Holding. Although we do not currently intend to enter into any equivalent contracts with third parties, each of these arrangements is non-exclusive.

*Eastern Aviation Import and Export Corporation ("EAIEC"), a 55% owned subsidiary of CEA Holding*

### Import and Export Agency Services

On October 15, 2010, the Company entered into an agreement relating to the renewal of the existing import and export agency agreement with the with EAIEC on substantially the same terms, pursuant to which EAIEC and its subsidiaries will from time to time as its agent provide us with agency services for the import and export of aircraft and related raw materials, accessories, machinery and equipment required in our daily airlines operations and civil aviation business. The Import and Export Agency Renewal Agreement will be effective for a term of three years commencing from January 1, 2011 to December 31, 2013. The agreement is subject to renewal.

For the year ended December 31, 2012, we paid handling charges to EAIEC of approximately RMB78.8 million. We currently have certain balances with EAIEC, which are unsecured, interest-free and have no fixed term of repayment. See Note 46(b) to our audited consolidated financial statements for more details.

### SA Import and Export Disposal

On July 28, 2010, Shanghai Airlines and Shanghai Airlines Tours, International (Group) Co., Ltd., or Shanghai Tours, entered into the SA Import and Export Share Transfer Agreement with EAIEC, pursuant to which Shanghai Airlines agreed to sell and EAIEC agreed to purchase the SA Import & Export Equity Interests, representing 89.7% of the entire issued share capital of SA Import & Export, and Shanghai Tours agreed to sell and EAIEC agreed to purchase the SA Import & Export Equity Interests II, representing 10.3% of the entire issued share capital of SA Import & Export.

*Eastern Aviation Advertising Service Co., Ltd. (“ Eastern Aviation Advertising ”), a 55% owned subsidiary of CEA Holding*

### Advertising Service Agreement

On April 29, 2008, we entered into an agreement to renew our agreement entered into with Eastern Aviation Advertising dated May 12, 2005 regarding the provision of advertising services on substantially the same terms, for an additional term of three years commencing from July 1, 2008. On October 15, 2010, we entered into an agreement relating to the renewal of the existing Advertising Services Agreement with Eastern Aviation Advertising on substantially the same terms, pursuant to which Eastern Aviation Advertising and its subsidiaries will, from time to time, provide us with multi-media advertising services to promote its business and to organize promotional functions and campaigns to enhance its reputation in the civil aviation industry. The advertising services renewal agreement will be effective for a term of three years, commencing from January 1, 2011 to December 31, 2013. For the year ended December 31, 2012, we paid to Eastern Aviation Advertising approximately RMB38.8 million for advertising services.

### Media Resources Agreement

On March 24, 2010, our Company and Eastern Aviation Advertising, which is 55% owned by CEA Holding, entered into an exclusive media resources agreement in which we granted Eastern Aviation Advertising the exclusive rights to operate the media resources of the Company. Pursuant to the agreement, Eastern Aviation Advertising will have the exclusive rights to: (i) distribute in-flight reading materials; (ii) operate aircraft cabin-based, in-flight and facilities advertising; and (iii) purchase in-flight entertainment programming from third parties or to self-produce such programming. The term of this agreement is for three years, commencing March 24, 2010, with the relevant terms to increase the fees payable to the Company in accordance with the expansion of the Company's aircraft fleet.

On October 15, 2010, we entered into an agreement relating to the renewal of the existing Media Resources Agreement with Eastern Aviation Advertising on substantially the same terms, pursuant to which we agreed to grant Eastern Aviation Advertising and its subsidiaries exclusive rights to operate our media resources. The Media Resources Renewal Agreement will be effective for a term of three years, commencing from January 1, 2011 to December 31, 2013. For the year ended December 31, 2012, Eastern Aviation Advertising paid approximately RMB36.0 million for media royalty fee.

### SA Media Disposal

On July 28, 2010, Shanghai Airlines and Shanghai Tours entered into the SA Media Share Transfer Agreement with Eastern Aviation Advertising, pursuant to which Shanghai Airlines agreed to sell and Eastern Aviation Advertising agreed to purchase the SA Media Equity Interests I, representing 49% of the entire issued share capital of SA Media, and Shanghai Tours agreed to sell and Eastern Aviation Advertising agreed to purchase the SA Media Equity Interests II, representing 51% of the entire issued share capital of SA Media.

*China Eastern Air Catering Investment Co., Ltd. (“CEA Catering”), a 55% owned subsidiary of CEA Holding with the remaining 45% by our Company*

#### Catering Service Agreements

On May 12, 2005, our Company entered into certain catering service agreements with a number of subsidiaries of CEA Catering (including Shanghai Eastern Air Catering Co., Ltd.) regarding the provision of in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in our Company’s daily airline operations and civil aviation business.

On April 29, 2008, we entered into a service agreement with CEA Catering in substantially the same terms to supersede our agreements dated May 12, 2005. The agreement, regarding the provision of in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in our Company’s daily airline operations and civil aviation business, was for a term of three years commencing from July 1, 2008.

On October 15, 2010, the Company entered into an agreement relating to the renewal of the existing catering services agreement with the CEA Catering on substantially the same terms pursuant to which CEA Catering and the subsidiaries of CEA Catering will from time to time provide our Group with in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in the daily airline operations and civil aviation business of our Group. CEA Catering and its subsidiaries provide their services in accordance with the specifications and schedules as from time to time specified by the relevant member(s) of our Group to accommodate its operation needs. The catering services renewal agreement will be effective for a term of three years, commencing from January 1, 2011 to December 31, 2013. For the year ended December 31, 2012, we paid approximately RMB783.4 million to the subsidiaries of CEA Catering for the supply of in-flight meals and other services.

#### SA Catering Disposal

On July 28, 2010, Shanghai Airlines and SA Industry entered into the SA Catering Share Transfer Agreement with CEA Catering, pursuant to which Shanghai Airlines agreed to sell and CEA Catering agreed to purchase the SA Catering Equity Interests I, representing 50% of the entire issued share capital of SA Catering, and SA Industry agreed to sell and CEA Catering agreed to purchase the SA Catering Equity Interests II, representing 20% of the entire issued share capital of SA Catering.

*Eastern Air Group Finance Co., Ltd., (“Eastern Finance”), a 53.75% owned subsidiary of CEA Holding*

Our Company and Eastern Finance have entered into a financial services agreement dated May 12, 2005 to supersede our agreement with Eastern Finance dated January 8, 1997, regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. Pursuant to this agreement, we may place deposits with, and obtain loans from, Eastern Finance.

Pursuant to the financial services agreement, Eastern Finance shall deposit all monies deposited by our Company under the agreement with commercial bank(s) in China, including, for example, Industrial and Commercial Bank of China, China Construction Bank, Agriculture Bank of China and Bank of Communications. Eastern Finance has also undertaken under the financial services agreement that all outstanding loans it provides to CEA Holding and its subsidiaries (other than our Company) will not at any time and from time to time exceed the aggregate amount of its equity capital, surplus reserves and deposits received from other parties.

On April 29, 2008, we entered into a financial services agreement to renew our agreement dated May 12, 2005 regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references, in substantially the same terms, for an additional term of three years commencing from July 1, 2008.

On October 15, 2010, the Company entered into an agreement relating to the renewal of the existing financial services agreement with the Eastern Finance, pursuant to which the Eastern Finance and its subsidiaries will from time to time provide us with a range of financial services including: (i) deposit services; (ii) loan and financing services; and (iii) other financial services such as the provision of trust loans, financial guarantees and credit references (the scope of “other financial services” is not limited and different services may be provided to us as and when they are needed). The financial services renewal agreement will be effective for a term of three years commencing from January 1, 2011 to December 31, 2013.

As of December 31, 2012, we had short-term deposits amounting to RMB1,451.5 million placed with Eastern Finance, which paid interest to us at 0.39% per annum. In addition, our Company had short-term loans of RMB675.4 million from Eastern Finance. During the year ended December 31, 2012, the weighted average interest rate on the loan was 4.98% per annum. As of December 31, 2012, we had long-term loans of RMB165.0 million with Eastern Finance, which had had a weighted average interest rate of 5.64% per annum.

On January 16, 2013, the Company entered into a supplemental agreement with Eastern Finance to further regulate the balances of the our deposits and loans with the Eastern Finance and its subsidiaries on a pre-condition that the agreed maximum daily balance of each of the deposits and the loans under the financial services agreement dated October 15, 2010 remains unchanged. For details, please refer to the our announcement filed with the SEC dated January 16, 2013.

*CEA Development Co. (“CEA Development”), a 95% owned subsidiary of CEA Holding*

On October 28, 2008, our Company and CEA Development Co. entered into an automobile repair service agreement, pursuant to which CEA Development Co. will, from time to time, provide maintenance and repair services for our automobiles that are used in our ground services and daily operations for a term commencing from January 1, 2008 to December 31, 2010. On April 29, 2008, we entered into a service agreement with Shanghai Eastern Aviation Equipment Manufacturing Corporation, or SEAEMC, a wholly owned subsidiary of CEA Development Co., to renew our agreement with SEAEMC dated May 12, 2005, in substantially the same terms. The agreement regarding the provision of comprehensive services in relation to maintenance, repair and overhaul of aircraft and aviation equipment, and procurement of related equipment and materials required in our daily operations extends for an additional term of three years commencing from July 1, 2008.

On October 15, 2010, the Company entered into an agreement relating to the consolidation and renewal of the existing maintenance services agreement and the existing automobile repairing services agreement on substantially the same terms with CEA Development Co. pursuant to which CEA Development Co. and its subsidiaries will from time to time provide certain services to the Company, including: (i) maintenance and repair services to the Company’s automobiles that are used in ground services and daily operations; (ii) comprehensive services in relation to maintenance, repair and overhaul of aircraft and aviation equipment, and procurement of related equipment and materials required in the daily operations of our Group; (iii) various special vehicles and equipment for airline use, such as air stairs, freight cars, luggage trailers, garbage truck, food cars, freight containers, freight board; and (iv) aircraft on-board supplies. The maintenance and repair services renewal agreement will be effective for a term of three years commencing from January 1, 2011 to December 31, 2013. For the year ended December 31, 2012, production and maintenance services fees paid to CEA Development Entity amounted were approximately RMB121.9 million.



*Great Wall Airlines, a non-wholly owned subsidiary of CEA Holding*

On December 20, 2010, China Cargo Airlines, a subsidiary of our Company, as purchaser, and Great Wall Airlines, as vendor, entered into a purchase 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 obtained the approval from CAAC, NDRC and MOFCOM, and was completed on June 1, 2011. The acquisition is to align with the development strategy of our Company and enhances China Cargo Airlines' capability for sustainable development, while avoiding horizontal competition.

*Shanghai Eastern Airlines Investment Co., Ltd. ("Shanghai Eastern Investment"), a wholly-owned subsidiary of CEA Holding*

On November 4, 2011, our Company entered into an agreement with Shanghai Eastern Investment, pursuant to which Shanghai Eastern Investment acquired 5% of the entire issued share capital of CEA Real Estate Investment Co., Ltd. ("CEA Real Estate"), an entity held by our Company, for a consideration of RMB100.7 million. The terms and conditions of the transaction were agreed to after arm's length negotiations between the parties. The transaction was conducted in accordance to the requirements of the relevant laws and regulations of the PRC and the relevant requirements of the China Securities Regulatory Commission. We believe this transaction will not only lower the risks of our external investments but will also allow us to focus more on our core aviation business and related businesses. For the year ended December 31, 2012, we received approximately RMB93.7 million from Shanghai Eastern Investment for the disposal of 5% of the entire share capital of CEA Real Estate.

*Shanghai Dongmei Aviation Tourism Co., Ltd. ("Shanghai Dongmei"), a 72.84% owned subsidiary of CEA Holding*

On May 12, 2005, our Company entered into certain sales agency services agreements with several subsidiaries of CEA Holding regarding the sales of our air tickets by such subsidiaries of CEA Holding as our sales agents and the provision of complementary services for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. Under such agreements, the sales agents charge commissions at rates with reference to those prescribed by the CAAC and the International Aviation Transportation Association, as determined following arm's length negotiations. Such commissions are payable monthly in arrears. The parties will perform an annual review of the then prevailing commission rate before December 31 of each calendar year, and agree on any required adjustments to such commission rate in respect of the next calendar year.

On April 29, 2008, we entered into certain sales agency service agreements to renew our agreements dated May 12, 2005 regarding the sales of our air tickets by certain subsidiaries of CEA Holding as our sales agents and the provision of complementary services, in substantially the same terms, for an additional term of three years commencing from

July 1, 2008.

On October 15, 2010, our Company entered into an agreement relating to the renewal of the existing sales agency services agreements with Shanghai Dongmei on substantially the same terms, pursuant to which the Shanghai Dongmei Entities will from time to time provide our Group as its agents with services for sale of air tickets and the provision of complementary services required in the daily airline operations and civil aviation business of our Group. The Sales Agency Services Renewal Agreement will be effective for a term of three years commencing from January 1, 2011 to December 31, 2013.

On December 27, 2012, Shanghai Airlines Tours, International (Group) Co., Ltd. (“Shanghai Tours”), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Eastern Air Tourism Investment Group Co., Ltd (“Eastern Tourism”) and Shanghai Dongmei Aviation Travel Co., Ltd (“Shanghai Dongmei”), pursuant to which Shanghai Tours agreed to acquire the entire equity interests in Xi’an Dongmei Aviation Travel Co., Ltd (“Xi’an Dongmei”) from Eastern Tourism and Shanghai Dongmei in consideration of RMB3,300,400 in total (the “Xi’an Dongmei Acquisition”).

On December 27, 2012, Shanghai Tours entered into an equity transfer agreement with Eastern Tourism and Shanghai Dongmei, pursuant to which Shanghai Tours agreed to acquire the entire equity interests of Kunming Dongmei Aviation Travel Co., Ltd (“Kunming Dongmei”) from Eastern Tourism and Shanghai Dongmei in consideration of RMB10,551,000 in total (the “Kunming Dongmei Acquisition”). For the year ended December 31, 2012, we paid to Shanghai Dongmei, Kunming Dongmei and Xi’an Dongmei an aggregate amount of approximately RMB19.8 million of commissions for the agency services of air tickets sales.

On January 10, 2013, Shanghai Tours entered into an equity transfer agreement with Eastern Tourism, pursuant to which Shanghai Tours agreed to acquire the entire equity interests of Shanghai Eastern Air International Travel Service Co., Ltd (“Eastern Travel”) from Eastern Tourism in consideration of RMB11,876,200 in total (the “Eastern Travel Acquisition”). Based on the valuation prices, we paid RMB13.9 million for the Eastern Travel Acquisition for the year ended December 31, 2012.

Eastern Tourism is a wholly-owned subsidiary of CEA Holding, which in turn is a controlling shareholder of the Company. Eastern Tourism is thus a connected person of the Company under the Listing Rules. Shanghai Dongmei is interested as to 72.84% by, and is thus an associate of, CEA Holding. Shanghai Dongmei is thus a connected person of the Company under the Listing Rules. Therefore, each of the Xi’an Dongmei Acquisition, the Kunming Dongmei Acquisition and the Eastern Travel Acquisition constitutes a connected transaction of the Company. The main purpose of Xi’an Dongmei Acquisition, the Kunming Dongmei Acquisition and the Eastern Travel Acquisition is to reorganize and intergrade the tourism business of the Group. For details, please refer to the announcements of the Company issued in Hong Kong dated January 10, 2013.

*Shanghai Aviation Import & Export Com. Ltd. (“SA Import & Export”), which is indirectly held as to 55% by CEA Holding and 45% by our Company*

On December 6, 2012, we entered into an agreement with SA Import & Export, pursuant to which we agreed to purchase and SA Import & Export agreed to sell the 13.98% of the entire issued share capital of Shanghai Tours held by SA Import & Export. Shanghai Tours was previously directly held as to 86.02% by our Company and 13.98% by SA Import & Export, and after completion of the acquisition, it has become a wholly-owned subsidiary of our Company. We paid to SA Import & Export RMB20.7 million for the acquisition as of December 31, 2012.

The main purpose of the acquisition is to resolve the issue of intra-group competition. The acquisition is not expected to have a material impact on our normal operations and financial condition. The terms and conditions of the acquisition are agreed after arm’s length negotiations between the parties.

### ***Property Leases***

Our Company and EA Group had entered into an office lease agreement dated January 7, 1997 in respect of office premises located at Kong Gang San Lu, Number 92, Shanghai, China. The lease term is one year and renewable by the parties, subject to mutual agreement with respect to rental terms. The total rental payment is approximately RMB158,342 per month. In addition, our Company and EA Group had entered into a staff dormitory lease agreement dated December 31, 1996, pursuant to which EA Group had agreed to enter into lease arrangements with our employees for dormitories in Shanghai, Anhui Province, Shandong Province and Jiangxi Province. The term of the lease and the rental payments are set in accordance with Chinese regulations and the rate prescribed by the Shanghai Municipal Government. CEA Holding has assumed EA Group’s rights and liabilities under those lease agreements after its establishment.

On May 12, 2005, we entered into a property leasing agreement with CEA Holding, CEA Northwest and CEA Yunnan for a term of three years, subject to renewal of another three years.

On April 29, 2008, we entered into an agreement to renew the property leasing agreement dated May 12, 2005 for an additional term of three years commencing July 1, 2008. Pursuant to the agreement, we will renew our lease on all properties covered by the previous property leasing agreement entered into on May 12, 2005, except that where we previously leased 81 building properties and related construction, infrastructure and facilities, we will instead lease 77 building properties and related construction, infrastructure and facilities covering an aggregate floor area of approximately 452,949 square meters. In addition, CEA Holding will be the only counterparty in the property leasing renewal agreement. Under the property leasing renewal agreement, our Company will pay annual rentals of approximately RMB55.1 million.

On October 15, 2010, the Company entered into an agreement relating to the renewal of the existing property leasing agreement with CEA Holding on substantially the same terms. Pursuant to this property leasing renewal agreement, we leased from CEA Holding, for our use in daily business operations: (i) 33 land properties owned by CEA Northwest, covering an aggregate site area of approximately 692,539 square meters primarily located in Xi'an, Xianyang and Lanzhou, with a total of 225 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 269,148 square meters; (ii) seven land properties owned by CEA Yunnan, covering an aggregate site area of approximately 420,768 square meters primarily located in Kunming, together with a total of 77 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 452,949 square meters; (iii) building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 8,853 square meters located in Shijiazhuang; building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 63,552 square meters located in Taiyuan; (iv) seven building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 13,195 square meters located in Shanghai; (v) 29 guest rooms and two suites at the Eastern Hotel owned by CEA Holding, occupying an aggregate floor area of approximately 1,500 square meters located in Shanghai; and (vi) other property facilities owned by CEA Holding and/or its subsidiaries that are leased to us from time to time for various operational needs. Under the property leasing agreement, we are required to pay annual rental payments to CEA Holding. The rentals are payable half-yearly in advance, and are subject to review and adjustments provided that the adjustments shall not exceed the applicable inflation rates published by the relevant local PRC authorities. The Property Leasing Renewal Agreement will be effective for a term of three years commencing from January 1, 2011 to December 31, 2013.

For the year ended December 31, 2012, we paid a rental of RMB66.76 million under this property leasing renewal agreement.

***Guarantee by CEA Holding***

As of December 31, 2012, certain unsecured long-term bank loans of our Group with an aggregate amount of RMB95 million were guaranteed by CEA Holding. See Note 46(d) to our audited consolidated financial statements.

*Subscription Agreements with CEA Holding, CES Global and CES Finance*

On December 10, 2008, CEA Holding entered into an A Share Subscription Agreement (the “Original A Share Subscription Agreement”) with our Company to subscribe for new A shares to be issued by our Company. Simultaneously with entering into the Original A Share Subscription Agreement, CES Global entered into an H Share Subscription Agreement with our Company (the “Original H Share Subscription Agreement”) to subscribe for new H shares to be issued by our Company. Subsequently, the parties made amendments to certain terms of the Original A Share Subscription Agreement and the Original H Share Subscription Agreement; and on December 29, 2008, CEA Holding entered into a revised A Share Subscription Agreement with our Company to subscribe in cash for 1,437,375,000 new A shares in our Company at the subscription price of RMB3.87 per share with a total subscription price of approximately RMB5,563 million, and CES Global entered into a revised H Share Subscription Agreement with our Company to subscribe in cash for 1,437,375,000 new H shares in our Company at the subscription price of RMB1.00 per share with a total subscription price of approximately RMB1,437 million, respectively. The Original A Share Subscription Agreement and the Original H Share Subscription Agreement were cancelled accordingly.

On February 26, 2009, we convened a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders, at which special resolutions were passed to approve both the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to CEA Holding and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global. On May 22, 2009, we had received an approval issued by CSRC dated May 19, 2009 in relation to our proposed issue of 1,437,375,000 new H Shares at a price of RMB1.00 per share to CES Global. In June 2009, the CSRC approved the non-public issuance of 1,437,375,000 new A Shares. We issued 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.

On July 10, 2009, our Board approved an issuance of not more than 1,350,000,000 new A shares of the Company to 10 or less specific investors and the issuance of not more than 490,000,000 new H shares of the Company to CES Global. As part of this contemplated new A share issuance, CEA Holding entered into a subscription agreement with the Company on July 10, 2009, pursuant to which CEA Holding would subscribe in cash for not more than 490,000,000 new A shares at a subscription price of not less than RMB4.75 per A share. CES Global entered into another subscription agreement with the Company on the same day, pursuant to which CES Global would subscribe in cash for not more than 490,000,000 new H shares at the subscription price of not less than HK\$1.40 per H share. The issuances of the A shares to CEA Holding and H shares to CES Global were completed on December 23, 2009 and December 10, 2009, respectively.

On September 11, 2012, CEA Holding and CES Finance entered into an A Shares Subscription Agreement with our Company. Pursuant to the A Shares Subscription Agreement: (i) CEA Holding, at the subscription price of RMB3.28 per share, subscribed in cash for 241,547,927 new A Shares with a total subscription price of RMB792,277,200.56;

and (ii) CES Finance, at the subscription price of RMB3.28 per share, subscribed in cash for 457,317,073 new A Shares with a total subscription price of RMB1,499,999,999.44.

Simultaneously with the entering into of the A Shares Subscription Agreement, CES Global entered into the H Shares Subscription Agreement with the Company. Pursuant to the H Shares Subscription Agreement, CES Global, at the subscription price of HK\$2.32 per share, subscribed in cash for 698,865,000 new H Shares with a total subscription price of HK\$1,621,366,800.

Both CES Finance and CES Global are wholly-owned subsidiaries of CEA Holding. The subscriptions will significantly enhance the capital structure and financial position of our Company by improving our balance sheet and leverage ratios, and thus strengthen the core competitiveness and risk-resistance capability of our Company. The terms and conditions of the Subscriptions are agreed after arm's length negotiations between the parties. For details, please refer to the announcement furnished to the SEC on Form 6-K dated September 24, 2012.

***Equity Transfer Agreements with CEA Holding***

On October 29, 2010, the Company entered into two equity transfer agreements with CEA Holding in Shanghai. Pursuant to these agreements, the Company acquired 5% of the equity interest in Flight Training Company and 14.14% of the equity interest in Eastern Airlines Hotel held by CEA Holding by way of cash. The acquisition prices were determined on the basis of the appraised net asset value as of June 30, 2010, being the record date in respect of their respective valuations. The resolutions in respect of the said connected transactions were unanimously approved by the independent directors of the Company present at the meeting, who also expressed their independent opinions.

Upon the completion of the equity transfers under these connected transactions, Flight Training Company and Eastern Airlines Hotel will become wholly-owned subsidiaries of the Company. The Company will be able to direct and manage Flight Training Company and Eastern Airlines Hotel in a more flexible manner, so as to ensure that they better serve the Company's requirements by providing protection and services to the air crew and to endeavor to open up external markets.

On August 22, 2012, we entered into an agreement with CEA Holding, pursuant to which we agreed to purchase and CEA Holding agreed to sell means 20% of the entire issued share capital of the China United Airlines held by CEA Holding. China United Airlines was held 80% by the Company and 20% by CEA Holding before the transaction. After the completion of the acquisition, China United Airlines has become our wholly-owned subsidiary, which will enable us to manage and conduct internal integration of the Group. The terms and conditions of the acquisition are agreed after arm's length negotiations between the parties.

***Subscription Agreement with China Ocean Shipping (Group) Company ("COSCO"), which is a substantial shareholder of Shanghai Eastern Airlines Logistics Co., Ltd., which in turn is a subsidiary of the Company***

On December 6, 2012, we entered into an agreement with COSCO, pursuant to which we agreed to purchase and COSCO agreed to sell 29.7% of the entire issued share capital of Shanghai Eastern Airlines Logistics Co., Ltd. held by COSCO. On the same day, we also entered into an agreement with China Cargo Airlines Co., Ltd., or China Cargo, pursuant to which we agreed to purchase and China Cargo agreed to sell its 1% equity interests in Shanghai Eastern Airlines Logistics Co., Ltd. COSCO is a substantial shareholder of Shanghai Eastern Airlines Logistics Co., Ltd., which in turn is a subsidiary of the Company, and COSCO is thus a connected person of the Company.

COSCO is principally engaged in the business of global passenger and cargo shipping, charter booking, voyage charter, time charter, leasing, ship building, purchase and sale of ships, container manufacturing and repairing and accessory making, warehousing, forwarding, multimodal transport and door-to-door transport, and other approved overseas futures business.

Shanghai Eastern Airlines Logistics Co., Ltd. is principally engaged in the business of shipping agency, ground cargo handling, road freight transport (general freight), warehousing and property management. In order to integrate the freight transportation business of the Group, expand the business of air-ground transportation, and provide “end-to-end, door-to-door” service, we acquired the equity interests in Shanghai Eastern Airlines Logistics Co., Ltd. held by COSCO and China Cargo. After the completion of the acquisitions, Shanghai Eastern Airlines Logistics Co., Ltd. has become a wholly-owned subsidiary of the Company.

The terms and conditions of the acquisitions are agreed after arm's length negotiations between the parties. The resolution regarding considering and approving the acquisitions has been passed at the 2012 fifth regular meeting of the Board held on October 30, 2012.

**C. Interests of Experts and Counsel**

Not applicable.

**Item 8. Financial Information**

**A. Consolidated Statements and Other Financial Information**

***Financial Statements***

You should read “Item 18. Financial Statements” for information regarding our audited consolidated financial statements and other financial information.

***Legal Proceedings***

We are involved in routine litigation and other proceedings in the ordinary course of our business. We do not believe that any of these proceedings are likely to be material to our business operations, financial condition or results of operations. In 2005, the family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou city in the Inner Mongolia Autonomous Region on November 21, 2004, sued, among other defendants, our Company in a U.S. court for compensation, the amount of which has not been determined. As of December 31, 2006, we had filed a motion to contest the claim in the U.S. court because we expressly did not assume the legal liability of such incident in our acquisition of certain



selected assets relating to the aviation business of CEA Yunnan. 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. Following the plaintiffs' appeals, in February 2009 the Court of Appeal of California 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 related materials have been served on our Company and trial began on October 10, 2012. The management of our Group believes that any outcome for this case will not have an adverse effect on the financial condition and results of operations of our Company. Save as disclosed above, we were not involved in any other new material litigation in the period of this report.

### ***Dividends and Dividend Policy***

For the fiscal years ended December 31, 2008, 2009, 2010, 2011 and 2012, our Board of Directors did not recommend any dividend payouts due to our total accumulated losses of RMB18,082 million, RMB17,913 million, RMB12,956 million, RMB8,380 million and RMB5,426 million, respectively. The Directors expect the balance of accumulated losses will be carried forward to next year. Under PRC law, we cannot convert funds from the common reserve to increase our share capital during this period.

Our Board declares dividends, if any, in Renminbi with respect to H Shares on a per share basis and pays such dividends in HK dollars. Any final dividend for a fiscal year is subject to shareholders' approval. BNYM, as depositary, converts the HK dollar dividend payments and distributes them to holders of ADSs in U.S. dollars, less expenses of conversion. Under the Company Law of the PRC and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of the H Shares share proportionately on a per share basis in all dividends and other distributions declared by our Board, if any, based on the foreign exchange conversion rate published by the People's Bank of China, or PBOC, on the date of the distribution of the cash dividend.

We believe that our dividend policy strikes a balance between two important goals providing our shareholders with a competitive return on investment and assuring sufficient reinvestment of profits to enable us to achieve our strategic objectives. The declaration of dividends is subject to the discretion of our Board, which takes into account the following factors:

- our financial results;
- capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- our shareholders interests;
- the effect on our creditworthiness;
- general business and economic conditions; and
- other factors our Board may deem relevant.

Pursuant to PRC laws and regulations, dividends may only be distributed after allowance has been made for: (i) recovery of losses, if any and (ii) allocations to the statutory surplus reserve. The allocations to the statutory surplus reserve is 10% of our net profit determined in accordance with PRC Generally Accepted Accounting Principles. Our distributable profits for the current fiscal year will be equal to our net profits determined in accordance with IFRS, less allocations to the statutory surplus reserve.

## **B.**

## **Significant Changes**

### **Significant Post Financial Statements Events**

Not applicable.

**Item 9. The Offer and Listing****A. Offer and Listing Details**

The principal trading market for our H Shares is the Hong Kong Stock Exchange. The ADSs, each representing 50 H Shares, have been issued by The Bank of New York Mellon (“BNYM”) as the Depositary and are listed on the New York Stock Exchange. Prior to our initial public offering and subsequent listings on the New York Stock Exchange and the Hong Kong Stock Exchange on February 4 and 5, 1997, respectively, there was no market for our H Shares or ADSs. Our publicly traded domestic shares, or A shares, have been listed on the Shanghai Stock Exchange since November 5, 1997.

As of December 31, 2012, there were 3,494,325,000 H Shares issued and outstanding. As of December 31, 2012 and April 19, 2013, there were, respectively, 42 and 41 registered holders of American depositary receipts evidencing 1,194,494 and 1,089,374, ADSs, respectively. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. A total of 7,782,213,860 domestic ordinary shares were also outstanding as of December 31, 2012.

The table below sets forth certain market information relating to the trading prices of our H Shares and ADSs in respect of the period from 2008 to April 19, 2013.

	Hong Kong Stock Exchange		New York Stock Exchange	
	Price Per H Share (HK\$)		Price Per ADS (US\$)	
	High	Low	High	Low
2008	8.11	0.65	102.99	8.47
2009	3.12	0.91	52.75	12.00
2010	5.38	2.53	58.79	23.10
First Quarter 2010	4.10	2.53	52.75	32.68
Second Quarter 2010	4.51	2.96	57.10	38.11
Third Quarter 2010	4.83	3.09	58.79	25.00
Fourth Quarter 2010	5.38	3.55	34.58	23.10
2011	4.46	2.10	27.49	13.25
First Quarter 2011	4.46	2.88	27.49	18.53
Second Quarter 2011	3.79	2.84	24.15	18.21
Third Quarter 2011	4.09	2.46	25.92	15.00
Fourth Quarter 2011	3.39	2.10	21.67	13.25
January 2012	2.95	2.63	19.19	17.09
February 2012	3.15	2.75	19.88	17.97
March 2012	3.03	2.42	19.39	16.00
April 2012	2.59	2.21	16.77	14.57
May 2012	2.77	2.17	17.82	14.05

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June 2012	2.62	2.12	16.4	13.92
July 2012	2.77	2.4	17.94	15.29
August 2012	2.77	2.3	17.62	14.99
September 2012	2.48	2.27	15.84	14.7
October 2012	2.85	2.32	17.86	15.03
November 2012	2.93	2.56	18.72	16.73
December 2012	3.21	2.56	20.71	16.7
January 2013	3.73	3.08	23.83	20.25
February 2013	3.66	3.08	23.32	20.11
March 2013	3.58	3.16	22.87	20.47
April 2013 (up to April 19, 2013)	3.48	2.99	22.20	19.78

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our H shares are listed for trading on the Hong Kong Stock Exchange (Code: 00670), our ADSs are listed for trading on the New York Stock Exchange under the symbol “CEA” and our A shares are listed for trading on the Shanghai Stock Exchange (Code: 600115).

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

The following is a brief summary of certain provisions of our Articles of Association, as amended. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations. A copy of the English translation of our Articles of Association, as amended on November 9, 2012, is attached as an exhibit to this Annual Report on Form 20-F.

### *Selected Summary of the Articles of Association*

We are a joint stock limited company established in accordance with the “Company Law of the People’s Republic of China” (the “Company Law”), the “State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share” (the “Special Regulations”) and other relevant laws and regulations of the State. We were established by way of promotion with the approval under the document “Ti Gai Sheng” 1994 No. 140 of the PRC State Commission for Restructuring the Economic System. We are registered with and have obtained a business license from China’s State Administration Bureau of Industry and Commerce on April 14, 1995. Our business license number is: 10001767-8. We changed our registration with Shanghai Administration for Industry and Commerce on October 18, 2002. The number of our Company’s business license is: Qi Gu Hu Zong Zi No. 032138.

We were incorporated in the PRC for the purpose of providing the public with safe, punctual, comfortable, fast and convenient air transport services and other ancillary services, to enhance the cost-effectiveness of the services and to protect the lawful rights and interests of shareholders.

### *Board of Directors*

The Board of Directors shall consist of eleven (11) directors, who are to be elected at the shareholders’ general meeting and will hold a term of office for three (3) years. At least one-third of the members of the Board of Directors shall be independent directors. The Directors are not required to hold shares of our Company.

Directors who are directly or indirectly materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with our Company (other than his contract of service with our Company) shall declare the nature and extent of his interests to the Board of Directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefore is otherwise subject to the approval of the Board of Directors.

In accordance with our Articles, a director shall abstain from voting at a board meeting the purpose of which is to approve contracts, transactions or arrangements that such director or any of his or her associates (as defined in the relevant rules governing the listing of securities) has a material interest. Such director shall not be counted in the quorum for the relevant board meeting.

Unless the interested director discloses his interests in accordance with our Articles of Association and the contract, transaction or arrangement is approved by the Board of Directors at a meeting in which the interested director is not counted in the quorum and refrains from voting, a contract, transaction or arrangement in which that director is materially interested is voidable at the instance of our Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested director. A director is also deemed to be interested in a contract, transaction or arrangement in which an associate of the director is interested.

Our Articles provide that our Company shall not in any manner pay taxes for or on behalf of a director or make directly or indirectly a loan to or provide any guarantee in connection with the making of a loan to a director of our Company or of our Company's holding company or any of their respective associates. However, the following transactions are not subject to such prohibition: (1) the provision by our Company of a loan or a guarantee of a loan to a company which is a subsidiary of our Company; (2) the provision by our Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its directors, administrative officers to meet expenditure incurred or to be incurred by him for the purposes of our Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; (3) our Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of our Company includes the lending of money or the giving of guarantees.

Our Articles do not contain any requirements for (i) the directors' power to vote compensation to themselves or any members of their body, in the absence of an independent quorum or (ii) the directors to retire by a specified age.

*Description of the Shares*

As of December 31, 2012, our share capital structure was as follows: 11,276,538,860 ordinary shares of which (a) 5,120,263,860 A shares subject to trading moratorium, which represented 45.4% of our share capital, were held by CEA Holding and Jin Jiang International Holdings Company Limited; (b) 2,661,950,000 A shares, which represented 23.6% of our share capital, were issued to investors in China; and (c) 3,494,325,000 H shares, which represented 31.0% of our share capital, were issued to foreign investors including CES Global, a wholly owned subsidiary of CEA Holding.

Our ordinary shareholders shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of shares held;
- (ii) the right to attend or appoint a proxy to attend Shareholders' general meetings and to vote thereat;
- (iii) the right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;
- (iv) the right to transfer shares in accordance with laws, administrative regulations and provisions of these Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of these Articles of Association, including:
  - (1) the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;
  - (2) the right to inspect and copy, subject to payment of a reasonable charge;
- (vi) all parts of the register of shareholders;



(vii) personal particulars of each of the Company's directors, supervisors, general manager, deputy general managers and other senior administrative officers, including:

(aa) present name and alias and any former name or alias;

(bb) principal address (residence);

(cc) nationality;

(dd) primary and all other part-time occupations and duties;

(ee) identification documents and their relevant numbers;

(viii) state of the Company's share capital;

reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares  
(ix) repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;

(x) minutes of Shareholders' general meetings and the accountant's report,

(xi) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company in accordance with the number of shares held; or

(xii) other rights conferred by laws, administrative regulations and these Articles of Association.

A shareholder (including a proxy), when voting at a Shareholders' general meeting, may exercise such voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote. Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions. To adopt an ordinary resolution, votes representing more than one half of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed. To adopt a special resolution, votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed. Our ordinary shareholders are entitled to the right to dividends and other distributions in proportion to the number of shares held, and they are not liable for making any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription. Our Articles provide that a controlling shareholder (as defined in the Articles) shall not approve certain matters which will be prejudicial to the interests of all or some of other shareholders by exercising his/her voting rights.

The Listing Agreement between us and the Hong Kong Stock Exchange further provides that we may not permit amendments to certain sections of the Articles of Association subject to the Mandatory Provisions for the Articles of Association of Companies Listed Overseas promulgated by the State Council Securities Commission and the State Restructuring Commission on August 27, 1994 (the “Mandatory Provisions”). These sections include provisions relating to (i) varying the rights of existing classes of shares; (ii) voting rights; (iii) our power to purchase our own shares; (iv) rights of minority shareholders; and (v) procedures upon liquidation. In addition, certain amendments to the Articles of Association require the approval and assent of relevant PRC authorities.

### *Shareholders' Meetings*

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board of Directors. Annual general meetings are held once every year and within six (6) months from the end of the preceding financial year. The Board of Directors shall convene an extraordinary general meeting within two (2) months of the occurrence of any one of the following events:

- (i) where the number of Directors is less than the number of Directors required by the Company Law or two-thirds of the number of Directors specified in these Articles of Association;
  
- (ii) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;

- (iii) where shareholder(s) holding 10 per cent or more of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting; or
- (iv) when deemed necessary by the Board of Directors or as requested by the supervisory committee.

When we convene a shareholders' general meeting, written notice of the meeting shall be given forty five (45) days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to us twenty (20) days before the date of the meeting. When we convene a shareholders' annual general meeting, shareholders holding three per cent or more of the total voting shares of the Company shall have the right to propose new motions in writing, and we shall place those matters in the proposed motions within the scope of functions and powers of the Shareholders' general meeting on the agenda.

#### *Shareholders' Rights*

Set forth below is certain information relating to the H Shares, including a brief summary of certain provisions of the Articles, and selected laws and regulations applicable to us.

#### *Sources of Shareholders' Rights*

The rights and obligations of holders of H Shares and other provisions relating to shareholder protection are principally provided in the Articles of Association and the PRC Company Law. The Articles of Association incorporate mandatory provisions in accordance with the Mandatory Provisions. We are further subject to management ordinances applicable to the listed companies in Hong Kong SAR and the United States, as our H Shares are listed on the Hong Kong Stock Exchange and the New York Stock Exchange (in the form of ADSs).

In addition, for so long as the H Shares are listed on the Hong Kong Stock Exchange, we are subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE Rules"), the Securities and Futures Ordinance of Hong Kong (the "SFO") and the Hong Kong Code on Takeovers and Mergers and Share Repurchases.

Unless otherwise specified, all rights, obligations and protections discussed below are derived from the Articles of Association, the PRC Company Law and abovementioned laws and regulations.

*Significant Differences in the H Shares and A Shares*

Holders of H Shares and A Shares, with minor exceptions, are entitled to the same economic and voting rights. The Articles of Association provide that dividends or other payments payable to H Share holders shall be declared and calculated in Renminbi and paid in Renminbi, while those to A Share holders shall be declared and calculated in Renminbi and paid in the local currency at the place where such A Shares are listed (if there is more than one place of listing, then the principal place of listing as determined by the Board of Directors). In addition, the H Shares can only be traded by investors of Taiwan, Hong Kong, Macau and any country other than the PRC, while A Shares may be traded only by investors within the territory of the PRC.

*Restrictions on Transferability and the Share Register*

H Shares may be traded only among investors who are not PRC persons, and may not be sold to PRC investors. There are no restrictions on the ability of investors who are not PRC residents to hold H Shares.

Pursuant to the Articles of Association, we may refuse to register a transfer of H Shares unless:

a fee (for each instrument of transfer) of two Hong Kong dollars and fifty cents or any higher fee as agreed by the (1) Stock Exchange has been paid to us for registration of any transfer or any other document which is related to or will affect ownership of or change of ownership of the shares;

(2) the instrument of transfer only involves H Shares;

(3) the stamp duty chargeable on the instrument of transfer has been paid;

(4) the relevant share certificate and upon the reasonable request of the Board of Directors any evidence in relation to the right of the transferor to transfer the shares have been submitted;

(5) if it is intended to transfer the shares to joint owners, then the maximum number of joint owners shall not exceed four (4); or

(6) we do not have any lien on the relevant shares.

If we refuse to register any transfer of shares, we shall within two months of the formal application for the transfer provide the transferor and the transferee with a notice of refusal to register such transfer. No changes in the shareholders' register due to the transfer of shares may be made within thirty (30) days before the date of a Shareholders' general meeting or within five (5) days before the record date established for the purpose of distributing a dividend.

#### *Merger and Acquisitions*

In the event of the merger or division of our Company, a plan shall be presented by our Board of Directors and shall be approved in accordance with the procedures stipulated in our Articles of Association and then the relevant examining and approving formalities shall be processed as required by law. A shareholder who objects to the plan of merger or division shall have the right to demand that we or the shareholders who consent to the plan of merger or division acquire such dissenting shareholders' shareholding at a fair price. The contents of the resolution of merger or division of our Company shall be made into special documents for shareholders' inspection.

#### *Repurchase of Shares*

We may, with approval according to the procedures provided in these Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase our issued shares under the following circumstances:

(i) cancellation of shares for the reduction of capital;

- (ii) merging with another company that holds shares in our Company; or
- (iii) other circumstances permitted by relevant laws and administrative regulations.

We shall not repurchase our issued shares except under the circumstances stated above.

We may, with the approval of the relevant State governing authority for repurchasing shares, conduct the repurchase in one of the following ways:

- (i) making a pro rata general offer of repurchase to all our shareholders;
- (ii) repurchasing shares through public dealing on a stock exchange; or
- (iii) repurchasing shares by an off-market agreement off of a stock exchange.

#### *Interested Shareholders*

Articles 88 and 89 of our Articles of Association provide the following:

Article 88: the following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of the shares of that class;
- (ii) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;

- (iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (v) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of such class;
- (vi) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of such class;
- (vii) to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of such class;
- (viii) to restrict the transfer or ownership of the shares of such class or add to such restrictions;
- (ix) to allot and issue rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) to increase the rights or privileges of shares of another class;
- (xi) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring;
- (xii) to vary or abrogate the provisions of this Chapter.

Article 89. Shareholders of the affected class, whether or not otherwise having the right to vote at Shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning sub-paragraphs (2) to (8), (11) and (12) of Article 88, but interested shareholder(s) shall not be entitled to vote at class meetings.

The meaning of "interested shareholder(s)" as mentioned in the preceding paragraph is:

- (i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange under Article 30, a "controlling shareholder" within the meaning of Article 53;
- (ii) in the case of a repurchase of shares by an off-market contract under Article 30, a holder of the shares to which the proposed contract relates; and
- (iii)

in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate obligation imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

*Ownership Threshold*

There are no ownership thresholds above which shareholder ownership is required to be disclosed.

*Changes in Capital*

Article 78(1) provides that any increase or reduction in share capital shall be resolved by a special resolution at a shareholders' general meeting.

*Changes in Registered Capital*

The Company may reduce its registered share capital. It shall do so in accordance with the Company Law, any other relevant regulatory provisions and the Articles of Association.



***Recent Amendments to the Articles of Association***

On February 2, 2010, our shareholders approved amendments to the Articles of Association, which was amended, respectively, as follows:

Article 20: “As approved by the China Securities Regulatory Commission, the total amount of shares of the Company is 11,276,538,860 shares.”

Article 21: “The Company has issued a total of 11,276,538,860 ordinary shares, comprising a total of 7,782,213,860 A shares, representing 69.01% of the total share capital of the Company, a total of 3,494,325,000 H shares, representing 30.99% of the total share capital of the Company.”

Article 24: “The Company’s registered capital is Renminbi 11,276,538,860.”

The CSRC has enacted regulations in recent years which affect the corporate governance of PRC listed companies and the PRC Company Law has also been amended in various areas. As such, the Board proposed to amend certain provisions in our Articles of Association in accordance with the rules and regulations applicable to our Company. Such amendments relate to the general provisions of the Articles of Association, reduction of capital and repurchase of shares, shareholders and register of shareholders, shareholders’ general meeting, board of directors, supervisory committee, financial and accounting systems and profit distribution, merger and division and dissolution and liquidation of our Company. All such amendments were approved at our Annual General Meeting that took place on June 13, 2010.

On November 9, 2012, our shareholders approved further amendments to the Articles of Association, which was amended, respectively, as follows:

Article 146: “The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the place outside the PRC where the Company’s shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted. According to the relevant laws and regulations,

profit distribution by the Company shall be based on the distributable profit of the Company (non-consolidated statements). ”

Article 157: “The Company’s profit distribution policy should pay close attention to ensuring a reasonable return of investment to investors, and such profit distribution policy should maintain continuity and stability. The Company shall reasonably distribute cash dividends according to laws and regulations and requirements of securities regulatory authorities, as well as the Company’s own operating performance and financial condition. ”

Article 157 (A): “Profit distribution manner: The Company may distribute dividends by way of cash, shares, a combination of cash and shares or in other reasonable manner in compliance with laws and regulations. ”

Article 157 (B): “Procedures for decision-making on profit distribution by the Company: After the end of each accounting year, the board of directors shall carefully study and examine the profit distribution plan and listen fully to the views of independent directors. The independent directors shall fulfill their responsibilities and play their roles to give specific views. After consideration and approval by the board of directors, the profit distribution plan shall be proposed to the general meeting for voting. Implementation of the profit distribution plan shall be subject to consideration and approval at the general meeting. The board of directors of the Company shall finish distributing the profit within two months after the general meeting is held. ”

When considering the profit distribution plan at the general meeting of the Company, the board of directors shall communicate and exchange opinions with shareholders, especially minority shareholders, in a proactive manner, fully consider the opinions and requests from minority shareholders and respond to the issues which are of concern to them on a timely basis.

Article 157 (C): “Amendments to profit distribution policy of the Company: The board of directors of the Company shall carefully study and examine and strictly follow the decision-making procedures in the event that the profit distribution policy needs to be adjusted by reason of any changes in PRC laws and regulations and regulatory policies, or significant changes of external operating environment or operating condition of the Company. In the event of amendments to the profit distribution policy of the Company, the board of directors shall consider the revised plan and the independent directors shall express their independent opinions thereon. Such amendments shall be disclosed to the public upon consideration and approval at the general meeting. ”

Article 157 (D): “Conditions and proportion of distribution of cash dividends by the Company:

Proposal and implementation of cash dividends distribution by the Company shall be subject to the following conditions:

(1) The Company records a profit for the year, and the audit institution issues an unqualified audited report on the Company's financial statements for that particular year;

(2) The distributable profit (i.e. the after-tax profit of the Company after making up for losses, allocation to the statutory common reserve fund and discretionary common reserve fund) realized by the Company for the year is positive in value;

(3) The Company has sufficient cash flow, and distribution of cash dividends will not affect the Company's normal operation and sustainable development.

Provided that the Company is in good operating condition and has sufficient cash flow to meet the needs for its normal operation and sustainable development, the Company will proactively distribute cash dividends in return to its shareholders, and the accumulated profit distribution made in cash by the Company in the latest three years shall not be less than 30% of the average annual distributable profit in the latest three years. In the event that the said payout ratio of cash dividends cannot be met due to special reasons, the board of directors may adjust the payout ratio of dividends according to actual circumstances and state the reasons therefor. ”

Article 157 (E): “Conditions of profit distribution by way of share dividends by the Company:

Provided that reasonable scale of share capital and shareholding structure of the Company are ensured, the Company may consider distributing profits by way of share dividends according to its profitability, cash flow position and business growth for the year. ”

Article 157 (F): “Intervals for profit distribution by the Company: Provided that the conditions of profit distribution are met and the Company's normal operation and sustainable development are ensured, the Company shall generally distribute profit on an annual basis. The board of directors of the Company may also propose interim profit distribution based on the profitability and capital position of the Company. ”

Article 157 (G): “Information disclosure if the Company fails to distribute cash dividends: In the event that the board of directors of the Company does not propose any profit distribution plan, the board of directors of the Company shall disclose the reasons therefor and the use of such retained funds that would have been otherwise available for distribution in its periodic report. ”

### **C. Material Contracts**

For a summary of any material contracts entered into by our Company or any of our consolidated subsidiaries outside of the ordinary course of business during the last two years, see “Item 4. Information on the Company”, “Item 5. Operating and Financial Review and Prospects” and “Item 7. Major Shareholders and Related Party Transactions”.

In addition, we entered into the following agreements to purchase aircraft or to issue new shares, which are filed with this Annual Report as exhibits:

an aircraft purchase agreement, dated as of December 30, 2010, between our Company and Airbus SAS regarding the purchase of 50 A320 aircraft.

Boeing 787 Aircraft Delivery Delay Settlement Agreement, dated as of September 15, 2011, between our Company and the Boeing Company.

A330 Family Aircraft Purchase Agreement, dated as of October 17, 2011, between our Company and Airbus SAS.

Buyback Agreement relating to Five Airbus A340-300 Aircraft, dated as of October 17, 2011, between our Company and Airbus SAS.

Aircraft Sale and Purchase Agreement relating to the disposal of Eight (8) Bombardier CRJ-200 Aircraft and Ten (10) Embraer ERJ-145 Aircraft, dated November 23, 2012, among our Company, Airbus SAS, China Eastern Aviation Import and Export Corporation, China Eastern Airlines, Wuhan Company, China Eastern Yunnan Airlines, China Eastern Airlines Jiangsu Ltd. and Shanghai Airlines Company Limited.

Amendment No. 2 to the A 320 Family Purchase Agreement dated December 30, 2010, dated November 23, 2012, between our Company and Airbus SAS.

Acquisition Agreement for Used Aircraft relating to Five (5) Airbus Model A340-642 Aircraft, dated April 27, 2012, between our Company and Boeing Aircraft Holding Company

Purchase Agreement Number PA-03746 relating to Boeing Model 777-300ER Aircraft, dated April 27, 2012, between our Company and the Boeing Company

#### **D. Exchange Controls**

The Renminbi is not currently a freely convertible currency. SAFE, under the authority of PBOC, controls the conversion of Renminbi into foreign currency. Prior to January 1, 1994, Renminbi could be converted to foreign currency through the Bank of China or other authorized institutions at official rates fixed daily by SAFE. Renminbi could also be converted at swap centers open to Chinese enterprises and foreign invested enterprises, or FIEs, subject to SAFE approval of each foreign currency trade, at exchange rates negotiated by the parties for each transaction. Effective January 1, 1994, a unitary exchange rate system was introduced in China, replacing the dual-rate system previously in effect. In connection with the creation of a unitary exchange rate, the PRC government announced the establishment of an inter-bank foreign exchange market, the China Foreign Exchange Trading System, or CFETS, and the phasing out of the swap centers. Effective December 1, 1998, the swap centers were abolished by the PRC government.

On July 21, 2005, the PRC government changed its decade-old 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 has resulted in a significant appreciation of the Renminbi against the U.S. dollar. While the international reaction to Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar.

In general, under existing foreign exchange regulations, domestic enterprises operating in China must price and sell their goods and services in China in Renminbi. Any foreign exchange received by such enterprises must be sold to authorized foreign exchange banks in China. 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. 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 SAFE, is obtained. As a foreign investment enterprise approved by the MOC, we can purchase foreign currency without the approval of SAFE for settlement of current account transactions, including payment of dividends, by providing commercial documents evidencing these transactions. We can also retain foreign exchange in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or to pay dividends. However, the relevant PRC government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.

#### **E. Taxation**

The taxation of income and capital gains of holders of H Shares or ADSs is subject to the laws and practices of China and of jurisdictions in which holders of H Shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-U.S. federal laws. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H Shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this Annual Report, all of which are subject to change.

## **Hong Kong Taxation**

The following discussion summarizes the material Hong Kong tax provisions relating to the ownership of H shares or ADSs purchased in connection with the global offering and held by you.

### ***Dividends***

Under current Hong Kong Inland Revenue Department practice, no Hong Kong tax is payable by the recipient in respect of dividends paid by us.

### ***Taxation of Capital Gains***

No Hong Kong tax is imposed on capital gains arising from the sale of property (such as H shares) acquired and held as investment assets. However, if a person carries on a trade, profession or business in Hong Kong (e.g., trading and dealing in securities) and derives trading gains from that trade, profession or business in or from Hong Kong, Hong Kong profits tax will be payable. Gains from sales of H shares effected on the Hong Kong Stock Exchange are considered to derive from or arise in Hong Kong for this purpose. Hong Kong profits tax is currently charged at the rate of 16.5% for corporations and at the rate of 15% for individuals.

No Hong Kong tax liability will arise on capital or trading gains arising from the sale of ADSs where the purchase and sale is effected outside Hong Kong, e.g. on the NYSE.

### ***Hong Kong Stamp Duty***

Hong Kong stamp duty is payable by each of the seller and the purchaser for every sold note and every bought note created for every sale and purchase of the H shares. Stamp duty is charged at the total rate of 0.2% (0.1% for each of sold note and bought note) of the value of the H shares transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H shares. If one of the parties to a sale is a non-resident of Hong Kong and does not pay the required stamp duty, the stamp duty not paid will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such stamp duty.

If the withdrawal of H shares when ADSs are surrendered or the issuance of ADSs when H shares are deposited results in a change of beneficial ownership in the H shares under Hong Kong law, Hong Kong stamp duty at the rate described above for sale and purchase transaction will apply. The issuance of ADSs for deposited H shares issued directly to the depository or for the account of the depository should not lead to a Hong Kong stamp duty liability. Holders of the ADSs are not liable for the Hong Kong stamp duty on transfers of ADSs outside of Hong Kong so long as the transfers do not result in a change of beneficial interest in the H shares under Hong Kong law.

### ***Hong Kong Estate Duty***

Hong Kong estate duty was abolished with respect to persons passing away on or after February 11, 2006.

### **China Taxation**

The following is a general summary of certain Chinese tax consequences of the acquisition, ownership and disposition of the H Shares and ADSs. This summary does not purport to address all material tax consequences of the ownership of Shares or ADSs, and does not take into account the specific circumstances of any particular investors. This summary is based on the tax laws of China as in effect on the date of this Annual Report, as well as on the U.S.-China Treaty, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

In general, and taking into account the earlier assumptions, for Chinese tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the H Shares represented by those ADSs, and exchanges of H Shares for ADSs, and ADSs for H Shares, will not be subject to Chinese tax.

### ***Taxation of Dividends by China***

#### ***Individual investors***

The Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System, or the Provisional Regulations, provide that dividends from Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. However, the Chinese State Tax Bureau issued, on July 21, 1993, a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals Numbered Guo Shui Fa [1993] No. 045, or No. 45 Document which provides that dividends from a Chinese company on shares listed on an overseas stock exchange, or Overseas Shares, such as H Shares (including H Shares represented by ADSs), would not be subject to Chinese withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas



Shares.

Nevertheless, No.45 Document was abolished on January 4, 2011 and the Chinese State Tax Bureau issued, on June 28, 2011, a Notice on Issues Concerning the Levy of Individual Income Tax Following the Abolishment of the Document Numbered Guo Shui Fa [1993] No. 045, according to which dividends from a Chinese company are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20% unless otherwise provided in applicable tax treaties between PRC and jurisdiction in which the relevant non-resident shareholder resides. The tax rate of dividends income tax applicable to Hong Kong residents and U.S. residents is 10% of the gross amount of interest.

### *Enterprises*

Under the newly enacted PRC Enterprise Income Tax Law, or the EIT Law, and the implementation regulations to the EIT Law, effective January 1, 2008, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises”, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. The rate could be reduced or eliminated pursuant to an applicable double taxation treaty.

### *Tax Treaties*

Non-Chinese investors resident in countries which have entered into double-taxation treaties with China may be entitled to a reduction of the withholding tax imposed on the payment of dividends to non-Chinese investors of our Company. China currently has double-taxation treaties with a number of other countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Under the U.S.-China Treaty, China may tax a dividend paid by our Company to a U.S. holder of H Shares or ADSs only up to a maximum of 10% of the gross amount of such dividend.

### ***Taxation of Capital Gains by China***

#### *Individual Investors*

The Tax Notice provides that gains realized upon the sale of Overseas Shares are not subject to taxes on capital gains. Although the Ministry of Finance has been empowered to collect a tax of 20% on gains derived from the sale of equity shares, a joint notice issued in February 1996 by the Ministry of Finance and the State Tax Bureau indicated that no capital gains tax would be imposed on gains from the sale of shares until the Ministry of Finance and the State Tax Bureau promulgate new rules. Therefore, holders of H Shares or ADSs have not been subject to taxation on gains realized upon the sale or disposition of such shares currently. However, holders of H Shares or ADSs could become subject to a 20% capital gains tax in the future, unless reduced or eliminated pursuant to an applicable double taxation treaty.

Under the U.S.-China Treaty, China may only tax gains from the sale or disposition by a U.S. holder of H Shares or ADSs representing an interest in the company of 25% or more.

#### *Enterprises*

Under the EIT Law and the implementation regulations to the EIT Law, gains realized upon the sale of Overseas Shares by “non-resident enterprises” may be subject to PRC taxation at the rate of 10% (or lower treaty rate).

### ***Chinese Stamp Tax***

Chinese stamp tax imposed on the transfer of shares of Chinese publicly traded companies under the Share System Tax Regulations should not apply to the acquisition or disposition by non-Chinese investors of H Shares or ADSs outside of China by virtue of the Provisional Regulations of The People’s Republic of China Concerning Stamp Tax, which provides that Chinese stamp tax is imposed only on documents executed or received within China or that should be considered as having been executed or received within China.

## United States Federal Income Taxation

Each potential investor is strongly urged to consult his or her own tax advisor to determine the particular United States federal, state, local, treaty and foreign tax consequences of acquiring, owning or disposing of the H Shares or ADSs.

The following is a general discussion of material United States federal income tax consequences of purchasing, owning and disposing of the H Shares or ADSs if you are a U.S. Holder, as defined below, and hold the H Shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986 as amended (the "Code"). This discussion does not address all of the tax consequences relating to the purchase, ownership and disposition of the H Shares or ADSs, and does not take into account U.S. Holders (defined below) who may be subject to special rules including:

- tax-exempt entities;

- banks, financial institutions, and insurance companies;

- real estate investment trusts, regulated investment companies and grantor trusts;

- dealers or traders in securities, commodities or currencies;

- U.S. Holders that own, actually or constructively, 10% or more of our voting stock;

- persons who receive the H Shares or ADSs as compensation for services;

- U.S. Holders that hold the H Shares or ADSs as part of a straddle or a hedging or conversion transaction;

- certain U.S. expatriates;

- dual resident corporations; or

- U.S. Holders whose functional currency is not the U.S. dollar.

Moreover, this description does not address United States federal estate, gift or alternative minimum taxes or any state or local tax consequences of the acquisition, ownership and disposition of the H Shares or ADSs.

This discussion is based on the Code, its legislative history, final, temporary and proposed United States Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depository and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

You are a “U.S. Holder” if you are a beneficial owner of H Shares or ADSs and are:

- an individual citizen or resident of the United States for United States federal income tax purposes;

- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;

- an estate the income of which is subject to United States federal income tax without regard to its source; or

- a trust if (i) a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of such trust, or (ii) such trust has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes.

If a partnership (including any entity treated as a partnership for United States federal tax purposes) is a beneficial owner of the H Shares or ADSs, the treatment of the partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If an investor is a partner in a partnership that holds H Shares or ADSs, such investor should consult its tax advisor.

In general, if you hold ADRs evidencing ADSs, you will be treated as the owner of the H Shares represented by the ADSs. Exchanges of H shares for ADRs, and ADRs for H shares, generally will not be subject to United States federal income tax.

**INVESTORS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE H SHARES OR ADSs, INCLUDING THE APPLICABILITY OF U.S. FEDERAL, STATE AND LOCAL TAX LAWS OR NON-U.S. TAX LAWS, ANY CHANGES IN APPLICABLE TAX LAWS AND ANY PENDING OR PROPOSED LEGISLATION OR REGULATIONS.**

#### **Distributions on the H Shares or ADSs**

Subject to the discussions below under “— Passive Foreign Investment Company”, the gross amount of any distribution (without reduction for any PRC tax withheld) we make on the H Shares or ADSs out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) will be includible in your gross income as ordinary dividend income when the distribution is actually or constructively received by you, or by the depository in the case of ADSs. Distributions that exceed our current and accumulated earnings and profits will be treated as a return of capital to you to the extent of your basis in the H Shares or ADSs and thereafter as capital gain. We, however, may not calculate earnings and profits in accordance with U.S. tax principles. Accordingly, all distributions by us to U.S. Holders will generally be treated as dividends. Any dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from United States corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual, trust or estate in a taxable year beginning after December 31, 2012 with respect to the H Shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on H Shares or ADSs will be treated as qualified dividends if either (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service, or IRS, has approved for the purposes of the qualified dividend rules, or (ii) the dividends are with respect to ADSs readily tradable on a U.S. securities market, provided that we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Agreement Between the Government

of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income (the "Treaty") has been approved for the purposes of the qualified dividend rules, and we expect to qualify for benefits under the Treaty. We are considered a qualified foreign corporation with respect to the ADSs because our ADSs are listed on the New York Stock Exchange. Finally, based on our audited financial statements and relevant market data, we believe that we did not satisfy the definition for PFIC status for U.S. federal income tax purposes with respect to our 2012 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market data, we do not anticipate becoming a PFIC for our 2013 taxable year or any future year. However, our status in the current year and future years will depend on our income and assets (which for this purpose depends in part on the market value of the H Shares or ADSs) in those years. See the discussion below under "— Passive Foreign Investment Company".

Holders of H Shares or ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is received by you or by the depository, regardless of whether you or the depository convert the distribution into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you or the depository convert the distribution into U.S. dollars will be treated as ordinary income or loss from U.S. sources.

Subject to various limitations, any PRC tax withheld from distributions in accordance with the Treaty will be deductible or creditable against your United States federal income tax liability. Dividends paid by us generally will constitute income from sources outside the United States for U.S. foreign tax credit limitation purposes and will be categorized as "passive category income" or, in the case of certain U.S. Holders as "general category income" for U.S. foreign tax credit purposes.

In the event we are required to withhold PRC income tax on dividends paid to U.S. Holders on the H Shares or ADSs (see discussion under "China Taxation"), you may be able to claim a reduced 10% rate of PRC withholding tax if you are eligible for benefits under the Treaty. You should consult your own tax advisor about the eligibility for reduction of PRC withholding tax.

You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-United States taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H Shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale). The rules relating to the U.S. foreign tax credit are complex. U.S. Holders should consult their own tax advisors regarding the effect of these rules in their particular circumstance.

## **Sale, Exchange or Other Disposition**

Subject to the discussions below under “— Passive Foreign Investment Company”, upon a sale, exchange or other disposition of the H Shares or ADSs, you will generally recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs determined on (i) the date of receipt of payment in the case of a cash basis U.S. Holder and (ii) the date of disposition in the case of an accrual basis U.S. Holder. If Shares are treated as traded on an “established securities market”, a cash basis taxpayer or, if it so elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale. A U.S. Holder will have a tax basis in the foreign currency received equal to the U.S. dollar amount realized. Any currency exchange gain or loss realized on a subsequent conversion of the foreign currency into U.S. dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. Holder, a cash basis or electing accrual basis U.S. Holder should not recognize any gain or loss on such conversion.

Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes and as a result of the U.S. foreign tax credit limitation, foreign taxes, if any, imposed upon capital gains in respect of H Shares or ADSs may not be currently creditable. Under the Treaty, however, if any PRC tax was to be imposed on any gain from the disposition of H Shares or ADSs, the gain may be treated as PRC-source income. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of H Shares or ADSs, including the availability of the foreign tax credit under their particular circumstances.

### **Passive Foreign Investment Company**

In general, a foreign corporation is a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries:

75% or more of its gross income consists of passive income, such as dividends, interest, rents, royalties, and gains from the sale of assets that give rise to such income; or

50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

Passive income does not include rents and royalties derived from the active conduct of a trade or business. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

Based on the composition of our assets and income and the current expectations regarding the price of the H Shares and ADSs, we believe that we should not be treated as a PFIC for U.S. federal income tax purposes with respect to our 2012 taxable year and we do not intend or anticipate becoming a PFIC for any future taxable year. The determination of PFIC status is a factual determination that must be made annually at the close of each taxable year and therefore, there can be no certainty as to our status in this regard until the close of the 2012 taxable year. Changes in the nature of our income or assets or a decrease in the trading price of the H Shares or ADSs may cause us to be considered a PFIC in the current or any subsequent year.

If we were a PFIC in any taxable year that you held the H Shares or ADSs, you generally would be subject to special rules with respect to "excess distributions" made by us on the H Shares or ADSs and with respect to gain from your disposition of the H Shares or ADSs. An "excess distribution" generally is defined as the excess of the distributions you receive with respect to the H Shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years, or your holding period for the H Shares or



ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H Shares or ADSs ratably over your holding period for the H Shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest United States federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income. If we were a PFIC in any year during a U.S. Holder's holding period, we would generally be treated as a PFIC for each subsequent year absent a "purging" election by the U.S. Holder.

These adverse tax consequences may be avoided if the U.S. Holder is eligible to and does elect to annually mark-to-market the H Shares or ADSs. If a U.S. Holder makes a mark-to-market election, such holder will generally include as ordinary income the excess, if any, of the fair market value of the H Shares or ADSs at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the H Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of the H Shares or ADSs will be treated as ordinary income. The mark-to-market election is available only for "marketable stock," which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. The H Shares or ADSs may qualify as "marketable stock" because the ADSs are listed on the New York Stock Exchange.

A U.S. Holder's adjusted tax basis in the H Shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the H Shares or ADSs are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

Alternatively, a timely election to treat us as a qualified electing fund could be made to avoid the foregoing rules with respect to excess distributions and dispositions. You should be aware, however, that if we become a PFIC, we do not intend to satisfy record keeping requirements that would permit you to make a qualified electing fund election.

If you own the H Shares or ADSs during any year that we are a PFIC, you must file IRS Form 8621. The reduced tax rate for dividend income, as discussed above under "— Distributions on the H Shares or ADSs," is not applicable to a dividend paid by us if we are a PFIC for either our taxable year in which the dividend is paid or the preceding year. We encourage you to consult your own tax advisor concerning the United States federal income tax consequences of holding the H Shares or ADSs that would arise if we were considered a PFIC.

## **Additional Taxes After 2012**

For taxable years beginning after December 31, 2012, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% Medicare contribution tax on unearned income, including, among other things, dividends on, and capital gains from the sale or other taxable disposition of, the H Shares or ADSs, subject to certain limitations and exceptions. U.S. Holders should consult their own tax advisors regarding the effect, if any, of such tax on their ownership and disposition of our securities.

### **Backup Withholding and Information Reporting**

In general, information reporting requirements will apply to dividends in respect of the H Shares or ADSs or the proceeds of the sale, exchange, or redemption of the H Shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients, including corporations. In addition, you may, under some circumstances, be subject to “backup withholding” (currently at a 28% rate) with respect to dividends paid on the H Shares or ADSs or the proceeds of any sale, exchange or transfer of the H Shares or ADSs, unless you

- are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact; or

- provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certify that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

Any amount withheld under the backup withholding rules generally will be creditable against your United States federal income tax liability provided that you furnish the required information to the IRS in a timely manner. If you do not provide a correct taxpayer identification number you may be subject to penalties imposed by the IRS.

For taxable years beginning after March 18, 2010, new legislation requires certain U.S. Holders who are individuals to report information relating to stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in custodial accounts maintained by a U.S. financial institution). U.S. Holders are urged to consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the H Shares or ADSs.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

You may read and copy documents referred to in this Annual Report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

The SEC allows us to "incorporate by reference" the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this Annual Report on Form 20-F.

## **I. Subsidiary Information**

For a listing of our significant subsidiaries, see “Item 4. Information on the Company — History and Development of the Company”.

### **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Risk**

Our debts include both fixed-rate and variable-rate long-term loans and other loans. As a result, we are subject to the market risk of fluctuation of interest rates which may affect the estimated fair value of our debt liabilities or result in losses in cash flow. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2012, the notional amount of the outstanding interest rate swap agreements was approximately US\$929 million. The fair value of the outstanding interest rate swap agreements was approximately US\$(47) million. These interest rate swap agreements will expire between 2013 and 2021. If the interest rate had been 25 basic points higher with all other variables held constant, interest expenses on our floating rate instruments would have increased by RMB119.0 million in 2011 and RMB122.5 million in 2012.

#### **Foreign Currency Exchange Rate Risk**

Although we derive most of our income from China in Renminbi, our financial lease obligations as well as certain bank loans are denominated in U.S. dollars, Japanese yen, Euro or Renminbi. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings generated from ticket sales made in our overseas offices subject to the approval of SAFE. We use forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of December 31, 2012, the notional amount and fair value of the outstanding currency forward contracts was approximately US\$58 million and US\$(4) million, respectively, which will expire between 2013 and 2017.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by PBOC. Transactions in currencies other than the Renminbi during the year are converted into Renminbi at the applicable rates of exchange prevailing at the dates of the transaction. Transaction gains and losses are recognized in our profit and loss account. In 2011 and 2012, we had foreign exchange gains of RMB1,872 million and RMB148 million, respectively. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations. Following the measures introduced by the PRC government in July 2005 to reform the Renminbi exchange rate regime, the Renminbi has appreciated significantly against certain foreign currencies, including the U.S. dollar and Japanese yen. The following table shows the effect on our profit and loss account as a result of the impact

on our non-Renminbi denominated monetary assets and liabilities as of December 31, 2012 as a consequence of a fluctuation in value of the following major foreign currencies.

	Profit and Loss Account (Decrease)/Increase
U.S. dollar depreciates by 1%	483,962
Japanese yen depreciates by 1%	(2,042 )
Euro depreciates by 1%	7,429

### **Fuel Hedging Risk**

In order to control fuel costs, we entered into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel. In the face of continuing increases in fuel prices, we reduced the impact of the fluctuation in aviation fuel prices through various financial derivative instruments. For 2011, we hedged 17.0% of our annual fuel consumption.

We engage in aviation fuel hedging for the purpose of locking in aviation fuel costs. By selecting appropriate instruments, we lock in costs within a hedged price range. However, high fluctuations in aviation fuel prices exceeding the locked-in price ranges has resulted in our Company incurring actual realized and unrealized settlement losses. If the oil price had increased or decreased by 5% compared to the closing price as of December 31, 2012, the fair value gain as of December 31, 2012 would have increased or decreased by approximately RMB1,494 million. All crude oil option contracts signed in past years were settled before December 31, 2012.

**Item 12. Description of Securities Other than Equity Securities**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

Our ADSs, each representing 50 H shares, are traded on the New York Stock Exchange under the symbol “CEA.” The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by BNYM, as depositary under the Deposit Agreement, dated as of February 5, 1997, among the Company, BNYM and holders and beneficial owners of ADSs. ADS holders are required to pay the following service fees to BNYM:

<b>Service</b>	<b>Fees (in U.S. dollars)</b>
Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property	US\$5.00 (or less) per ADSs (or portion of 100 ADSs)

· Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates	Cancellation fees
· Any cash distribution to ADS registered holders	N/A
· Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS registered holders	A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs
· Depository services	N/A
· Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares	Registration or transfer fees
· Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)	Expenses of the depository
· Converting foreign currency to U.S. dollars	Foreign exchange fees
· As necessary	Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes
· As necessary	Any charges incurred by the depository or its agents for servicing the deposited securities

For the past annual period, from January 1, 2012 to December 31, 2012, the Company received from the depository an aggregate of US\$77,658.31 for continuing stock exchange annual listing fees and reimbursement fees, and waived standard out-of-pocket maintenance costs for the ADRs (consisting of administrative expenses) of US\$130,065.05.

BNYM, as depository, has agreed to reimburse the Company for expenses incurred in the future in relation to the establishment and maintenance of the ADS program, which include standard out-of-pocket expenses such as postage and envelopes for mailing annual and interim financial reports and all related administrative and documentary expenses. BNYM has agreed to reimburse the Company annually for certain investor relationship programs and promotional activities. There are limits as to the amount of reimbursable expenses and this amount is not necessarily commensurate with the amount of fees BNYM collects from ADS investors. BNYM collects fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. BNYM collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay fees. BNYM may also collect its annual fee by deducting cash distributions or by directly billing investors, or by charging the book-entry system accounts of participants acting for investors.

## PART II

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use Of Proceeds**

On August 10, 2010, we effected an ADS split whereby each ADS now represents 50 H shares. There was no change to the rights and preferences of the underlying H shares.

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## **Item 15. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our President and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2012 the end of the fiscal year covered by this Annual Report. Our management, with the participation of President and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures, have concluded that as of the end of the period covered by this Form 20-F, our disclosure controls and procedures were effective to ensure that material information required to be disclosed in the reports that we file and furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations.

Disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) and have designed internal control over financial reporting or caused internal control over financial reporting to be designed under our supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, as applicable. Under the supervision and with the participation of our President and our Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012 based upon the criteria in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2012 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

### **Attestation Report of the Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which is included herein.

### **Changes in Internal Control over Financial Reporting**

During 2012, we have implemented certain measures to enhance our internal controls over financial reporting, which include the following initiatives:

To enhance our overall management of financial matters, we issued our internal regulations “Capital Authorization Management Policy” and amended “Financial Derivatives Risk Management Policy”.

We performed risk analysis to improve certain areas of existing accounting and financial reporting policies, inspected key accounting controls and journal entries, studied 175 internal control-related working procedures and conducted regular inspections according to our Internal Control Manual.

To strengthen the financial control of our overseas operating branches, we completed inspections of our operating branches and offices in Paris, Frankfurt, Tokyo, Hong Kong, Singapore, Kuala Lumpur, Bangkok, Vancouver, New York and Sydney, and rectified on time potential issues we found during the inspections.

Our subsidiary, China United Airlines, established the Oracle financial management system, in line with that of our Company; Our subsidiary, Shanghai Airlines, established the TravelSky settlement system, in line with that of our Company.

We expanded the application of our SAP system to integrate multiple business processes and functions into one comprehensive system, which we believe reduced risks relating to duplication, mistakes and inconsistent data.

### **Item 16A. Audit Committee Financial Expert**

Our Board of Directors has determined that Mr. Shao Ruiqing, the chairman of our audit committee, is an independent financial expert serving on our audit committee, given his experience in the academic aspects of accounting and notable achievements in accounting education and academic research. Mr. Shao is independent of the Board of Directors, senior management, Supervisors or substantial shareholders of our Company.

**Item 16B. Code of Ethics**

We have adopted a code of ethics that applies to our Directors, supervisors, President, Chief Financial Officer and other senior managers of our Company. We have filed this code of ethics as Exhibit 11.1 to this annual Report. A copy of our code of ethics will be provided to any person free of charge upon written request to Wang Jian, Secretary Office of the Board of Directors, China Eastern Airlines Corporation Limited at Kong Gang San Lu, Number 92, Shanghai 200335, the People's Republic of China.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate audit fees, audit-related fees and tax fees of our principal accountants, PricewaterhouseCoopers, and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the two years ended December 31, 2011 and 2012:

	Audit Fees	Audit-Related Fees	Tax Fees	All Other Fees
	(RMB)	(RMB)	(RMB)	(RMB)
2011	16,400,000	1,100,000	108,000	—
2012	14,380,000	2,900,000	108,000	—

Before our principal accountants were engaged by our Company or our subsidiaries to render audit or non-audit services, the engagements were approved by our audit committee.

**Audit Fees**

Audit fees primarily consist of fees for the audits of the Company's financial statements prepared under both of IFRS & PRC Accounting Standards for Business Enterprises as of and for the years ended December 31, 2011 and 2012.

**Audit-Related Fees**

Audit-related fees for the fiscal year ended December 31, 2012 primarily consist of fees for and services provided in connection with the Company's bond offerings and proposed non-public offerings. Audit-related fees for the fiscal year ended December 31, 2011 primarily consist of fees for and services provided in connection with the Company's bond offerings.

**Tax Fees**

Tax fees primarily consist of fees for tax compliance services.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers**

The Company and its affiliates have not purchased any issued shares of the Company during 2012 and up to the date of this Annual Report. However, on November 9, 2012, we held an extraordinary general meeting to approve, among other things, the proposals for the non-public issuance of A Shares and H Shares to specific places.

A total of 698,865,000 new A Shares are expected to be issued to CEA Holding and CES Finance with a total subscription price of RMB1,499,999,999.44. In addition, 698,865,000 new H Shares are expected to be issued to CES Global with a subscription price of HK\$1,621,366,800. The A Shares and H Shares subscriptions and the completion thereof will ultimately require approval from the relevant governmental and regulatory authorities such as CSRC.

**Item 16F. Changes in Registrant's Certifying Accountant**

There has not been a change in the Company's certifying accountant during 2011 and 2012.

**(a) Change of Principal Accountant**

On March 26, 2013, the Board approved not to re-appoint our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian CPAs Limited ("PwC") as the Company's PRC auditors and PricewaterhouseCoopers as the Company's international auditors for the year 2013, due to the relevant regulations issued by the MOF and the SASAC in December 2011. The relevant regulations restrict and limit the number of years that audit services can be continuously provided by an accounting firm to a PRC state-owned enterprise and its subsidiaries.

The independent audit reports of PwC as to our consolidated financial statements for the two fiscal years ended December 31, 2011 and 2012 did not contain any adverse opinion or a disclaimer of opinion, nor were such reports qualified or modified in any way as to any uncertainty, audit scope, or accounting principles.

During the two fiscal years ended December 31, 2011 and 2012 and up to April 24, 2013, there were no disagreements (as that term is used in Item 16F (a)(1)(iv) of Form 20-F and the related instructions to Item 16F) with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PwC, would have caused PwC to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements during the end of such fiscal years.

During the two fiscal years ended December 31, 2011 and 2012 and up to April 24, 2013, there were no “reportable events” (defined below) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. As used herein, the term “reportable event” means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

We have provided PwC with a copy of the disclosures under Item 16F(a) as included herein and have requested that PwC furnish us with a letter addressed to the SEC stating whether PwC agrees with the foregoing statements. A copy of the letter dated April 24, 2013, furnished by PwC in response to that request was filed as Exhibit 13.3 to this Form 20-F.

#### **(b) Engagement of New Principal Accountant**

On March 26, 2013, the Board agreed to appoint Ernst & Young Hua Ming LLP ("E&Y") and Ernst & Young as the Company's auditors for financial reports prepared for the PRC and the United States and Hong Kong, respectively for the year ended December 31, 2013. The proposed change of auditors is subject to the consideration and approval by the shareholders of the Company at the annual general meeting expected to be held in June 2013.

During the two fiscal years ended December 31, 2011 and 2012 and up to April 24, 2013, we have not, and have not authorized anyone on our behalf, to consult with E&Y with respect to either: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that E&Y concluded was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a "disagreement" with PwC (as that term is used in Item 16F (a)(1)(iv) of Form 20-F and the related instructions to Item 16F) or a "reportable event" (as described in Item 16F (a)(1)(v) of Form 20-F).

#### **Item 16G. Corporate Governance**

The NYSE has imposed a series of corporate governance listing standards for companies listed on the NYSE in Section 303A of its listing rules. However, the NYSE provides that listed companies that are foreign private issuers, subject to certain limitations and conditions, are permitted to follow “home country” practice in lieu of the provisions of Section 303A of the NYSE Listed Company Manual. To qualify for this exemption, a listed foreign private issuer must disclose any significant differences between their corporate governance practices and the requirements of the

NYSE corporate governance standards.

As a foreign private issuer, we are subject to more than one set of corporate governance requirements. In the table below, we set out material differences between our corporate governance practices and the NYSE's corporate governance requirements as set out in Section 303A of the Listed Company Manual:

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**NYSE Listed Company  
Manual Requirements on  
Corporate Governance**

**Company's Practices**

**Majority independent  
requirement of the Board  
of Directors**

Section 303A.01 of the Listed Company Manual requires that listed companies must have a majority of independent Directors.

We currently have four independent Directors out of a total of eleven Directors. The standards for establishing independence set forth under the Independent Director Guidance of the PRC differ, to some extent, from those set forth in the NYSE Listed Company Manual.

**Non-management  
directors must meet at  
regularly scheduled  
executive sessions without  
management**

Section 303A.03 of the Listed Company Manual requires non-management directors of each listed company to meet at regularly scheduled executive sessions without management participation.

There is no identical corporate governance requirement in the PRC.

**Nominating/Corporate  
Governance Committee**

Section 303A.04 of the Listed Company Manual requires that (i) listed companies must have a nominating/corporate governance committee composed entirely of independent directors and (ii) the nominating/corporate governance committee must have a written charter that addresses the committee's purposes and responsibilities and an annual performance evaluation of the committee.

The Company has established a nomination committee. As of December 31, 2012, the Nominations and Remuneration Committee consists of three members, two of which are independent non-executive Directors of the Company. The merger of the Nomination Committee and the Remuneration and Appraisal Committee into the Nominations and Remuneration Committee was agreed at the ordinary meeting of the Board of the Company held on March 19, 2010.

The Nominations and Remuneration Committee is a specialized committee under the Board. It is responsible for the discussion in regard to nominees, standards and procedures for selecting directors and senior management of the Company and making recommendations; responsible for studying and examining the remuneration policy and solutions of directors and senior management of the Company; responsible for studying the performance appraisal standards for directors and senior management of the Company, conducting appraisals and making recommendation.

**Compensation Committee**

Section 303A.05 of the Listed Company Manual requires that listed companies must (i) have a compensation committee composed entirely of independent directors

The Company has established a remuneration and appraisal committee. As of December 31, 2012, the Nominations and Remuneration Committee consists of three



and (ii) the compensation committee must have a written charter that addresses the committee's purposes and responsibilities and an annual performance evaluation of the committee.

members, two of which are independent non-executive Directors of the Company. The merger of the Nomination Committee and the Remuneration and Appraisal Committee into the Nominations and Remuneration Committee was agreed at the ordinary meeting of the Board of the Company held on March 19, 2010.

**Code of Business Conduct and Ethics**

Section 303A.10 requires a listed company to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers from the code for directors or executive officers.

As required under the Sarbanes-Oxley Act of 2002, the Company has adopted a code of ethics that is applicable to the Company's Directors, Supervisors, President, Chief Financial Officer and other senior managers.

In addition, we have posted a description of such differences under the section entitled "Report of Directors" of our 2012 Hong Kong Annual Report, which can be accessed through the following link on our website:

<http://en.ceair.com/mu/en/gydh/tzzgx/dqbg/hkdqbg/2012hkdqbge/index.html>

**Item 16H. Mine Safety Disclosures**

Not applicable.

**PART III**

**Item 17. Financial Statements**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**Item 18. Financial Statements**

Reference is made to pages F-1 to F-96.

**Item 19. Exhibits**

(a) See Item 18 for a list of the financial statements filed as part of this Annual Report.

(b) Exhibits to this Annual Report:

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Exhibit Index

**Exhibits Description**

- 1.1 Articles of Association as amended on November 9, 2012 (English translation). <sup>(10)</sup>
- 2.1 Specimen Certificate for the H Shares. <sup>(1)</sup>
- 2.2 Form of Deposit Agreement among the Registrant, The Bank of New York, as depository, and Owners and Beneficial Owners from time to time of American Depositary Receipts. <sup>(2)</sup>
- 4.1 Office Space Lease Agreement between our Company and Eastern Air Group Company (together with English translation). <sup>(1)</sup>
- 4.10 Amendment No. 9 to the A320 Purchase Agreement, dated as of April 21, 2005, between our Company and Airbus SAS. <sup>(3) (9)</sup>
- 4.11 Assets Transfer Agreement, dated as of May 12, 2005, between our Company, CEA Holding, CEA Northwest and CEA Yunnan (English translation). <sup>(3)</sup>
- 4.12 Aircraft Purchase Agreement, dated as of August 8, 2005, between our Company and The Boeing Company. <sup>(4) (9)</sup>
- 4.13 Aircraft Purchase Agreement, dated as of December 20, 2005, as amended by a supplemental agreement dated as of April 10, 2006, between our Company and The Boeing Company. <sup>(4) (9)</sup>
- 4.14 Amendment No. 10 to the A320 Purchase Agreement, dated as of June 26, 2006, between our Company and Airbus SAS. <sup>(4) (9)</sup>
- 4.15 Aircraft Purchase Agreement, dated as of January 30, 2008, between our Company and The Boeing Company. <sup>(5) (8)</sup>
- 4.16 Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global Holdings (Hong Kong) Limited, in relation to the placing of 1,437,375,000 new H shares to CES Global Holdings (Hong Kong) Limited by our Company. <sup>(6)</sup>
- 4.17 Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global Holdings (Hong Kong) Limited, in relation to the placing of 1,437,375,000 new A shares to China Eastern Air Holding Company by our Company. <sup>(6)</sup>
- 4.18 Aircraft Purchase Agreement, dated as of June 15, 2009, between our Company and Airbus SAS. <sup>(7) (9)</sup>
- 4.19 Share Subscription Agreement, dated as of July 10, 2009, between our Company and CES Global, in relation to the placing of 490,000,000 new H shares to CES Global. <sup>(7)</sup>
- 4.20 Share Subscription Agreement, dated as of July 10, 2009, between our Company and CEA Holding, in relation to the placing of 490,000,000 new A shares to CEA Holding. <sup>(7)</sup>

- 4.21 Agreement in relation to the absorption of Shanghai Airlines by way of Share Exchange by our Company, dated as of July 10, 2009. <sup>(7)</sup>
- 4.22 Aircraft Purchase Agreement, dated as of December 23, 2009, between our Company and Airbus SAS. <sup>(7) (9)</sup>
- 4.23 A320 Family Aircraft Purchase Agreement, dated as of December 30, 2010, between our Company and Airbus SAS. <sup>(8) (9)</sup>
- 4.24 Boeing 787 Aircraft Delivery Delay Settlement Agreement, dated as of September 15, 2011, between our Company and the Boeing Company. <sup>(9)</sup>
- 4.25 A330 Family Aircraft Purchase Agreement, dated as of October 17, 2011, between our Company and Airbus SAS. <sup>(9)</sup>
- 4.26 Buyback Agreement relating to Five Airbus A340-300 Aircraft, dated as of October 17, 2011, between our Company and Airbus SAS. <sup>(9)</sup>
- 4.27 Aircraft Sale and Purchase Agreement relating to the disposal of eight Bombardier CRJ-200 Aircraft and ten Embraer ERJ-145 Aircraft, dated November 23, 2012, among our Company, Airbus SAS and other parties. <sup>(11)</sup>
- 4.28 Amendment No. 2 to the A 320 Family Purchase Agreement dated December 30, 2010, dated November 23, 2012, between our Company and Airbus SAS. <sup>(11)</sup>
- 4.29 Acquisition Agreement for Used Aircraft relating to five Airbus Model A340-642 Aircraft, dated April 27, 2012, between our Company and Boeing Aircraft Holding Company. <sup>(11)</sup>
- 4.30 Purchase Agreement Number PA-03746 relating to Boeing Model 777-300ER Aircraft, dated April 27, 2012, between our Company and the Boeing Company. <sup>(11)</sup>
- 8.1 List of Subsidiaries (as of April 20, 2013).
- 11.1 Code of Ethics (English translation). <sup>(5)</sup>
- 12.1 Certification of the President pursuant to Rule 13a-14(a).
- 12.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
- 13.1 Certification of the President pursuant to Rule 13a-14(b).
- 13.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(b).
- 13.3 Letter from PWC to the Securities and Exchange Commission with respect to the disclosures under Item 16F(a).



- (1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-6260), filed with the Securities and Exchange Commission on January 9, 1997.
- (2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-6284), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H Shares.
- (3) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2005.
- (4) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on July 7, 2006.
- (5) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2008.
- (6) Incorporated by reference to our annual report on Form 20-F (File No.001-14550), filed with the Securities and Exchange Commission on June 11, 2009.
- (7) Incorporated by reference to our annual report on Form 20-F (File No.001-14550), filed with the Securities and Exchange Commission on June 24, 2010.
- (8) Incorporated by reference to our annual report on Form 20-F (File No.001-14550), filed with the Securities and Exchange Commission on June 29, 2011.
- (9) Incorporated by reference to our annual report on Form 20-F (File No.001-14550), filed with the Securities and Exchange Commission on April 24, 2012.
- (10) Incorporated by reference to our announcement furnished to the Securities and Exchange Commission on Form 6-K dated November 13, 2012.

(11) Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted document has been separately submitted to the Securities and Exchange Commission with a confidential treatment request.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

CHINA EASTERN AIRLINES  
CORPORATION LIMITED

By: /s/ Liu Shaoyong

Name: Liu Shaoyong

Title: Chairman of the Board of Directors

Date: April 24, 2013

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**

**DECEMBER 31, 2012, 2011 AND 2010**



**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## **Report of Independent Registered Public Accounting Firm**

### **To the Board of Directors and Shareholders of China Eastern Airlines Corporation Limited:**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of changes in equity and of cash flows present fairly, in all material respects, the financial position of China Eastern Airlines Corporation Limited (“the Company”) and its subsidiaries (collectively referred to as the “Group”) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, April 24, 2013

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in thousands except for per share data)

	Note	Year ended December 31,		
		2012 RMB'000	2011 RMB'000	2010 RMB'000
Revenues	5	85,253,317	82,403,130	73,803,659
Other operating income	6	1,719,626	1,061,451	658,620
Operating expenses				
Aircraft fuel		(29,871,506)	(29,229,011)	(21,605,611)
Gain on fair value movements of derivatives financial instruments	8	24,831	86,851	833,384
Take-off and landing charges		(9,065,649 )	(8,350,181 )	(7,454,637 )
Depreciation and amortization		(7,556,910 )	(6,965,570 )	(6,757,837 )
Wages, salaries and benefits	9	(10,059,043 )	(8,664,854 )	(8,940,786 )
Aircraft maintenance		(4,432,741 )	(4,405,900 )	(4,614,093 )
Impairment reversals/(charges)	10	13,467	(638,316 )	(405,391 )
Food and beverages		(2,031,425 )	(2,022,367 )	(1,596,454 )
Aircraft operating lease rentals		(4,438,169 )	(4,128,420 )	(3,975,557 )
Other operating lease rentals		(609,111 )	(491,901 )	(601,742 )
Selling and marketing expenses		(3,727,437 )	(3,739,682 )	(3,323,830 )
Civil aviation infrastructure levies		(1,414,457 )	(1,321,373 )	(1,295,612 )
Ground services and other charges		(594,057 )	(567,552 )	(439,664 )
Office, administrative and other expenses		(8,982,628 )	(8,853,751 )	(8,587,503 )
Total operating expenses		(82,744,835)	(79,292,027)	(68,765,333)
Operating profit	11	4,228,108	4,172,554	5,696,946
Share of results of associates	22	103,209	75,435	39,228
Share of results of jointly controlled entities	23	29,960	31,437	28,154
Finance income	12	348,601	2,024,002	1,155,384
Finance costs	13	(1,697,474 )	(1,462,727 )	(1,501,900 )
Profit before income tax		3,012,404	4,840,701	5,417,812
Income tax	14	(204,801 )	(264,229 )	(133,491 )
Profit for the year		2,807,603	4,576,472	5,284,321

**CHINA EASTERN AIRLINES CORPORATION LIMITED****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)****FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010****(Amounts in thousands except for per share data)**

	Note	Year ended December 31,		
		2012 RMB'000	2011 RMB'000	2010 RMB'000
Other comprehensive (loss)/income for the year				
Cash flow hedges, net of tax	39	(9,211 )	(132,446 )	(17,016 )
Fair value movements of available-for-sale investments		(389 )	486	(534 )
Fair value movements of available-for-sale investments held by associates	22	2,188	(2,701 )	1,543
Total comprehensive income for the year		2,800,191	4,441,811	5,268,314
Profit attributable to:				
Equity shareholders of the Company		2,953,645	4,575,732	4,957,989
Non-controlling interests		(146,042 )	740	326,332
		2,807,603	4,576,472	5,284,321
Total comprehensive income attributable to				
Equity shareholders of the Company		2,946,271	4,441,071	4,941,982
Non-controlling interests		(146,080 )	740	326,332
		2,800,191	4,441,811	5,268,314
Earnings per share attributable to the equity shareholders of the Company during the year				
– Basic and diluted (RMB)	17	0.26	0.41	0.44

The accompanying notes are an integral part of these consolidated financial statements.

	2012	2011	2010
Note	RMB'000	RMB'000	RMB'000

Dividends 15	-	-	-
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**CHINA EASTERN AIRLINES CORPORATION LIMITED****CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2012 AND 2011****(Amounts in thousands)**

		December 31,	
		2012	2011
	Note	RMB'000	RMB'000
Non-current assets			
Intangible assets	18	11,449,099	11,353,590
Property, plant and equipment	19	82,518,761	73,757,795
Lease prepayments	20	1,781,846	1,471,272
Advanced payments on acquisition of aircraft	21	11,894,891	10,968,344
Investments in associates	22	833,472	837,589
Investments in jointly controlled entities	23	418,159	423,256
Available-for-sale financial assets		234,690	240,380
Other long-term assets	24	1,958,256	1,929,834
Deferred tax assets	36	54,561	44,418
Derivative assets	39	-	4,365
		111,143,735	101,030,843
Current assets			
Flight equipment spare parts	25	2,087,978	1,555,544
Trade receivables	26	2,962,181	2,504,026
Prepayments and other receivables	27	3,368,648	2,410,895
Derivative assets	39	18,074	-
Restricted bank deposits and short-term bank deposits	28	1,726,251	2,894,287
Cash and cash equivalents	29	2,511,696	3,860,973
Assets held for sale	43	-	482,313
		12,674,828	13,708,038
Current liabilities			
Sales in advance of carriage		3,094,427	3,197,649
Trade payables and notes payable	30	3,075,325	2,692,624
Other payables and accrued expenses	31	16,256,225	16,267,287
Current portion of obligations under finance leases	32	2,605,269	2,459,259
Current portion of borrowings	33	22,639,955	18,171,130
Income tax payable		181,788	172,319
Current portion of provision for return condition checks for aircraft under operating leases	34	734,205	375,409
Derivative liabilities	39	35,813	51,063

Net current liabilities	48,623,007	43,386,740
Total assets less current liabilities	(35,948,179 )	(29,678,702 )
	75,195,556	71,352,141

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****CONSOLIDATED BALANCE SHEETS (CONTINUED)****AS OF DECEMBER 31, 2012 AND 2011****(Amounts in thousands)**

		December 31,	
		2012	2011
	Note	RMB'000	RMB'000
Non-current liabilities			
Obligations under finance leases	32	19,252,709	17,801,563
Borrowings	33	23,096,163	23,603,463
Provision for return condition checks for aircraft under operating leases	34	3,064,557	2,923,717
Other long-term liabilities	35	1,635,537	2,047,099
Deferred tax liabilities	36	29,326	29,326
Post-retirement benefit obligations	37(b)	3,259,529	2,859,945
Derivative liabilities	39	304,338	281,921
		50,642,159	49,547,034
Net assets		24,553,397	21,805,107
Equity			
Capital and reserves attributable to the equity shareholders of the Company			
Share capital	41	11,276,539	11,276,539
Reserves	42	11,649,259	8,849,353
		22,925,798	20,125,892
Non-controlling interests		1,627,599	1,679,215
Total equity		24,553,397	21,805,107

The accompanying notes are an integral part of these consolidated financial statements.



**CHINA EASTERN AIRLINES CORPORATION LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010****(Amounts in thousands)**

		Year ended December 31,		
	Note	2012 RMB'000	2011 RMB'000	2010 RMB'000
Cash flows from operating activities				
Cash generated from operations	44(a)	12,822,835	13,781,419	10,739,839
Income tax paid		(205,476 )	(158,394 )	(98,591 )
Net cash inflow from operating activities		12,617,359	13,623,025	10,641,248
Cash flows from investing activities				
Additions of property, plant and equipment				
Payments of short-term deposits with original maturity over three months		(6,148,139 )	(5,414,101 )	(6,522,951 )
Advanced payments on acquisition of aircraft	21	(7,328,529 )	(8,180,128 )	(3,461,737 )
Disposal of subsidiaries		-	-	(9,730 )
Investment in available-for-sale financial assets		-	(1,472 )	(2,737 )
Acquisition of cargo business of Great Wall Airlines Co., Ltd. ("Great Wall Airlines"), net of cash acquired		(87,316 )	(60,736 )	-
Net cash acquired through acquisition of Shanghai Airlines Co., Ltd. ("Shanghai Airlines")		-	-	1,167,565
Proceeds from disposal of assets held for sale		209,586	411,535	430,110
Proceeds from disposal of property, plant and equipment		181,246	33,881	101,894
Proceeds of short-term deposits with original maturity over three months	28	958,489	-	-
Interest received		215,789	146,529	64,359
Dividends received		112,446	82,294	30,443
Proceeds from disposal of interests in an associate		2,439	-	4,405
Proceeds from disposal of interests in available-for -sale financial assets		94,890	6,426	-
Net cash outflow from investing activities		(11,789,099)	(14,939,061)	(8,632,693 )

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in thousands)

	Year ended December 31,			
	2012	2011	2010	
	Note	RMB'000	RMB'000	RMB'000
Cash flows from financing activities				
Proceeds from draw down of short-term bank loans		23,101,136	19,647,120	20,803,369
Proceeds from issuance of short-term debentures and bonds		4,000,000	2,490,417	-
Repayments of short-term bank loans		(25,619,898)	(18,514,150)	(21,942,900)
Proceeds from draw down of long-term bank loans		10,887,474	5,693,281	11,556,258
Repayments of long-term bank loans		(8,352,313 )	(5,245,147 )	(6,526,565 )
Principal repayments of finance lease obligations		(4,094,636 )	(2,191,369 )	(2,201,176 )
Receipts/(payments) of restricted bank deposits		236,475	1,108,726	(1,174,066 )
Interest paid		(1,936,842 )	(1,701,253 )	(1,644,924 )
Capital contribution from non-controlling interests of subsidiaries		453,850	1,004,500	519,300
Acquisition of non-controlling interests in subsidiaries		(670,956 )	-	-
Dividends paid to non-controlling interests of subsidiaries		(178,580 )	(156,526 )	(41,738 )
Net cash (outflow)/inflow from financing activities		(2,174,290 )	2,135,599	(652,442 )
Net (decrease)/increase in cash and cash equivalents		(1,346,030 )	819,563	1,356,113
Cash and cash equivalents at January 1		3,860,973	3,078,228	1,735,248
Exchange adjustments		(3,247 )	(36,818 )	(13,133 )
Cash and cash equivalents at December 31	29	2,511,696	3,860,973	3,078,228

Notes to consolidated cash flow statements is set out in Note 44 to the financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Amounts in thousands)

	Attributable to equity shareholders of the Company			Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000			
Balance at January 1, 2010	9,581,700	9,566,349	(17,913,496 )	1,234,553	441,628	1,676,181
Total comprehensive income for the year	-	(16,007 )	4,957,989	4,941,982	326,332	5,268,314
- Profit for the year	-	-	4,957,989	4,957,989	326,332	5,284,321
- Other comprehensive loss	-	(16,007 )	-	(16,007 )	-	(16,007 )
Issuance of new shares for the acquisition of Shanghai Airlines	1,694,839	7,399,913	-	9,094,752	-	9,094,752
Non-controlling interests addition through the acquisition of Shanghai Airlines	-	-	-	-	53,920	53,920
Dividend paid to non-controlling interests in subsidiaries	-	-	-	-	(41,738 )	(41,738 )
Capital contribution by non-controlling interests in subsidiaries	-	-	-	-	519,300	519,300
Disposal of subsidiaries	-	-	-	-	(8,843 )	(8,843 )
Balance at December 31, 2010	11,276,539	16,950,255	(12,955,507 )	15,271,287	1,290,599	16,561,886

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Amounts in thousands)

	Attributable to equity shareholders of the Company				Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Subtotal RMB'000		
Balance at January 1, 2011	11,276,539	16,950,255	(12,955,507)	15,271,287	1,290,599	16,561,886
Total comprehensive income for the year	-	(134,661)	4,575,732	4,441,071	740	4,441,811
- Profit for the year	-	-	4,575,732	4,575,732	740	4,576,472
- Other comprehensive loss	-	(134,661)	-	(134,661)	-	(134,661)
Accumulated losses shared by non-controlling interests after capital injection in a subsidiary	-	426,439	-	426,439	(427,264)	(825)
Dividend paid to non-controlling interests in subsidiaries	-	-	-	-	(156,526)	(156,526)
Capital contribution by non-controlling interests in subsidiaries	-	-	-	-	1,004,500	1,004,500
Acquisition of non-controlling interests in subsidiaries	-	(12,905)	-	(12,905)	(32,834)	(45,739)
Balance at December 31, 2011	11,276,539	17,229,128	(8,379,775)	20,125,892	1,679,215	21,805,107

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Amounts in thousands)

	Attributable to equity shareholders of the Company			Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000			
Balance at January 1, 2012	11,276,539	17,229,128	(8,379,775 )	20,125,892	1,679,215	21,805,107
Total comprehensive income for the year	-	(7,374 )	2,953,645	2,946,271	(146,080 )	2,800,191
- Profit for the year	-	-	2,953,645	2,953,645	(146,042 )	2,807,603
- Other comprehensive loss	-	(7,374 )	-	(7,374 )	(38 )	(7,412 )
Dividend paid to non-controlling interests in subsidiaries	-	-	-	-	(178,580 )	(178,580 )
Capital contribution by non-controlling interests in subsidiaries	-	-	-	-	453,850	453,850
Acquisition of non-controlling interests in subsidiaries	-	(490,151 )	-	(490,151 )	(180,806 )	(670,957 )
Others	-	343,786	-	343,786	-	343,786
Balance at December 31, 2012	11,276,539	17,075,389	(5,426,130 )	22,925,798	1,627,599	24,553,397

The accompanying notes are an integral part of these consolidated financial statements

## **CHINA EASTERN AIRLINES CORPORATION LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **1. CORPORATE INFORMATION**

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

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

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

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

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **(a) Basis of preparation**

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention,

as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

***Going concern***

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

***(i)***

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

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

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(a)Basis of preparation (continued)**

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

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

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

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



**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(a)Basis of preparation (continued)**

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

IFRS 1 (Amendment)	First-time Adoption of IFRSs - Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters
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IFRS 1 (Amendment)	First time adoption on hyperinflation and fixed dates
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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(a)Basis of preparation (continued)**

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

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

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

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

IFRS 10 “Consolidated financial statements” (effective from January 1, 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to § apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements. The management is in the process of evaluating the impact of IFRS 10 on the Group and will apply the standard from January 1, 2013.

IFRS 13 “Fair value measurement” (effective from January 1, 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and § United States Generally Accepted Accounting Principles (“US GAAP”), do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The management is in the process of evaluating the impact of IFRS 13 on the Group and will apply the standard from January 1, 2013.

IAS 1(Amendment) (effective from July 1, 2013) “Financial statements presentation” regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in § “other comprehensive income” (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group will apply the standard from July 1, 2013 and it is not expected to have material impact on the Group’s financial statement.

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(a)Basis of preparation (continued)**

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

IFRS 11 (effective from January 1, 2013) “Joint arrangement”. IFRS 11 is a more realistic reflection of joint arrangement by focusing on the right and obligation of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operation has right to assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operation has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group will apply the standard from January 1, 2013 and it is not expected to have material impact on the Group's financial statement.

IAS 28 (Revised 2011) (effective from January 1, 2013) “Associates and joint ventures”. The amendment includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The management is in the process of evaluating the impact of IAS 28 on the Group and will apply the standard from January 1, 2013.

IFRS 12 (effective from January 1, 2013) “Disclosure of interests in other entities”. The amendment includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The management is in the process of evaluating the impact of IFRS 12 on the Group and will apply the standard from January 1, 2013.

IAS 27 (revised 2011) (effective from January 1, 2013) “Separate financial statements”. The amendment includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The management is in the process of evaluating the impact of IAS 27 on the Group and will apply the standard from January 1, 2013.

**(b)Consolidation**

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

*(i) Subsidiaries*

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

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

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

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

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

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

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

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

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

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Consolidation (continued)**

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

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

*(iii) Disposal of subsidiaries*

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

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Consolidation (continued)**

*(iv) Associates*

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

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

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

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

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



*(v) Jointly controlled entities*

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

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

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

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

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Segmental reporting**

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

**(d) Foreign currency translation**

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

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

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

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

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

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

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

*(i) Traffic revenues*

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

*(ii) Ground service income*

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

*(iii) Tour operation revenues*

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

*(iv) Cargo handling income*

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

*(v) Commission income*

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

*(vi) Other revenue*

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

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Government grants**

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

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

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

**(g) Maintenance and overhaul costs**

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

In respect of aircraft and engines owned by the Group or held under finance leases, overhaul costs are capitalized as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles (Note 2(1)).

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

**(h) Interest income**

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

**(i) Borrowing costs**

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

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(j) Current and deferred tax**

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

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

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

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

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





**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Intangible assets**

*(i) Goodwill*

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

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

*(ii) Computer software costs*

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

**(l) Deferred pilot recruitment costs**

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

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m)Property, plant and equipment**

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

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

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

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

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

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

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

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

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Assets that have an indefinite useful life or which are not yet available for use are not subject to amortization and are tested for impairment at least annually or whenever there is indication of impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

**(o) Assets held for sale**

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and are classified as assets held for sale.

**(p) Lease prepayments**

Lease prepayments represent acquisition costs of land use rights less accumulated amortization. Amortization is provided over the lease period of the land use rights on a straight-line basis.

**(q) Advanced payments on acquisition of aircraft**

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

**(r) Flight equipment spare parts**

Flight equipment spare parts are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of flight equipment spare parts comprises the purchase price (net of discounts), freight charges, duty and value added tax and other miscellaneous charges. Net realizable value is the estimated selling price of the flight equipment in the ordinary course of business, less applicable selling expenses.

**(s) Trade receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

**(t) Cash and cash equivalents**

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

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(u) Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**(v) Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date in which case such borrowings are classified as non-current liabilities.

**(w) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.



Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

For the contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, the present obligation under the contract is recognized and measured as a provision.

**(x) Leases**

***(i) A Group company is the lessee***

*Finance leases*

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has acquired substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets are depreciated using a straight-line basis over their expected useful lives to residual values.

For sale and leaseback transactions resulting in a finance lease, differences between sales proceeds and net book values are deferred and amortized over the minimum lease terms.

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(x)Leases (continued)**

***(i)A Group company is the lessee (continued)***

*Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognized immediately in the income statement, except to the extent that any profit or loss is compensated for by future lease payments at above or below market value, then the profit or loss is deferred and amortized over the period for which the asset is expected to be used.

***(ii)A Group company is the lessor***

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment. Rental income is recognized on a straight-line basis over the lease term.

**(y) Retirement benefits**

The Group participates in defined contribution retirement schemes regarding pension and medical benefits for employees organized by the municipal governments of the relevant provinces. The contributions to the schemes are

charged to the income statement as and when incurred.

In addition, the Group provides retirees with certain post-retirement benefits including retirement subsidies, transportation subsidies, social function activity subsidies as well as other welfare. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(z) Derivative financial instruments**

Derivative financial instruments are initially recognized in the balance sheet at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments and any unrealized gains or losses, being changes in fair value of the derivatives, are recognized in the income statement immediately.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Derivative financial instruments that qualify for hedge accounting and which are designated as a specific hedge of the variability in cash flows of a highly probable forecast transaction, are accounted for as follows:

- (i) the effective portion of any change in fair value of the derivative financial instrument is recognized directly in equity. Where the forecast transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are included in the initial measurement of the cost of the asset or

liability. Otherwise, the cumulative gain or loss on the derivative financial instrument is removed from equity and recognized in the income statement in the same period during which the hedged forecast transaction affects net profit or loss.

- (ii) the ineffective portion of any change in fair value is recognized in the income statement immediately.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged items is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the income statement when the committed or forecast transaction ultimately occurs. When a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(aa) Available-for-sale financial assets**

Investments in securities other than subsidiaries, associates and jointly controlled entities, being held for non-trading purposes, are classified as available-for-sale financial assets and are recognized on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. At each balance sheet date, the fair value is remeasured, with any resulting gain or loss being recognized directly in other comprehensive income, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the securities below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

**(ab) Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

**(ac) Share Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.



## CHINA EASTERN AIRLINES CORPORATION LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 3. FINANCIAL RISK MANAGEMENT

##### **(a) Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and fuel price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage risk exposures whenever management consider necessary.

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

##### ***(i) Foreign currency risk***

The Group operates its business in many countries and territories. The Group generates its revenue in different currencies, and its foreign currency liabilities at the end of the period are much higher than its foreign currency assets. The Group's major liability item (resulting from purchases and leases of aircraft) is mainly priced and settled in foreign currencies, primarily US dollars. The Group is exposed to currency risks from fluctuations in various foreign currency exchange rates against RMB.

RMB is not a freely convertible currency and is regulated by the PRC government. Limitation on foreign exchange transaction imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.



In addition, fluctuations in exchange rates will affect the Group's future costs for purchases of aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports.

The Group entered into certain foreign exchange forward option contracts to manage part of these foreign currency risks. Details of foreign currency forward contracts are disclosed in Note 39(b) to the financial statements.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (a) Financial risk factors (continued)

## (i) Foreign currency risk (continued)

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

	2012			2011		
	USD RMB'000	Euro RMB'000	JPY RMB'000	USD RMB'000	Euro RMB'000	JPY RMB'000
Trade and other receivables	1,259,043	156,354	161,020	1,308,300	121,646	140,143
Restricted bank deposits and short-term bank deposits	16,082	9,818	39,724	16,145	9,302	24,637
Cash and cash equivalents	372,387	38,175	30,451	520,976	19,753	5,425
Deposits relating to aircraft under operating leases	562,199	-	-	594,354	-	-
Trade and other payables	(248,604)	(166)	(3,355)	(448,593)	(278)	(2,754)
Obligation under finance leases	(18,751,982)	-	(667,351)	(17,891,918)	-	-
Borrowings	(31,605,345)	-	(303,433)	(24,994,674)	-	-
Currency derivatives at notional value	364,559	-	-	289,841	-	-
Net balance sheet exposure	(48,031,661)	204,181	(742,944)	(40,605,569)	150,423	167,451

The following table indicates the approximate change in the Group's profit and loss and other components of consolidated equity in response to a 1% appreciation of the RMB against the following major currencies at the balance sheet date.

2012	2011
Effect on profit and loss	Effect on profit and loss
Effect on other components of equity	Effect on other components of equity

	equity		equity	
	RMB'000	RMB'000	RMB'000	RMB'000
US dollars	483,962	988	406,797	(222 )
Euro	(2,042 )	-	(1,504 )	-
Japanese Yen	7,429	-	(1,675 )	-

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****3. FINANCIAL RISK MANAGEMENT (CONTINUED)****(a) Financial risk factors (continued)****(ii) Interest rate risk**

The Group's interest-rate risk primarily arises from borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in Notes 33 and 39(a) to the financial statements.

To hedge against the variability in the cash flows arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates.

The following table details the interest rate profiles of the Group's interest-bearing financial instruments at the balance sheet date.

	2012 RMB'000	2011 RMB'000
<b>Floating rate instruments</b>		
Cash and cash equivalents	2,503,079	3,852,681
Restricted bank deposits and short-term bank deposits	1,726,251	2,894,287
Borrowings	(35,256,709)	(35,256,801)
Obligations under finance leases	(21,857,978)	(20,260,822)
	(52,885,357)	(48,770,655)
Interest rate swaps at notional amount	5,598,774	4,075,758
	(47,286,583)	(44,694,897)

2012 RMB'000	2011 RMB'000
-----------------	-----------------

**Fixed rate instruments**

Borrowings	(10,479,409)	(6,517,792)
Interest rate swaps at notional amount	240,307	303,368
	(10,239,102)	(6,214,424)

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****3. FINANCIAL RISK MANAGEMENT (CONTINUED)****(a) Financial risk factors (continued)****(ii) Interest rate risk (continued)**

The following table indicates the approximate change in the Group's profit and loss and other components of equity, taking into the consideration of the interest rate swap, if interest rate had been 25 basis points higher with all other variables held constant.

	2012	Effect on	2011	Effect on
	Effect on	other	Effect on	other
	profit and	components	profit and	components
	loss	of equity	loss	of equity
	RMB'000	RMB'000	RMB'000	RMB'000
Floating rate instruments	(122,532)	(13,997)	(118,952)	(10,189)

**(iii) Fuel price risk**

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense component for the Group. Aircraft fuel accounts for 36% of the Group's operating expenses (2011: 37%).

As at December 31, 2012, the Group had no open crude oil option contracts, and all the contracts signed in past years had been settled before December 31, 2012.

For the year ended December 31, 2012, if fuel price had been 5% higher/lower with all other variables held constant (excluding the impact of crude oil option contracts), the Group's fuel cost would have been RMB1,494 million higher/lower.

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**3. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Financial risk factors (continued)**

*(iv) Credit risk*

The Group's credit risk is primarily attributable to cash and cash equivalents, deposits and derivative financial instruments with banks and financial institutions, as well as credit exposures to sales agents.

A significant portion of the Group's air tickets are sold by sales agents participating in the Billing and Settlements Plan ("BSP"), a clearing system between airlines and sales agents organized by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB812 million as at December 31, 2012 (2011: approximately RMB756 million). The credit risk exposure to BSP and the remaining trade receivables are maintained by the Group on an on-going basis and the allowance for impairment of doubtful debts is within management's expectations.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other banks, which are highly rated by international credit rating companies. The Group also deposits cash and cash equivalents in an associate financial institution owned by its holding company (Note 46(c)(iii)). The management does not expect any loss to arise from non-performance by these banks and the financial institution.

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



**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**3. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Financial risk factors (continued)**

*(v) Liquidity risk*

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

The Group operates with a working capital deficit. As at December 31, 2012, the Group's net current liabilities amounted to RMB35,948 million (2011: RMB29,679 million). For the year ended December 31, 2012, the Group recorded a net cash inflow from operating activities of RMB12,617 million (2011: inflow RMB13,623 million), a net cash outflow from investing activities and financing activities of RMB13,963 million (2011: outflow RMB12,803 million), and a decrease in cash and cash equivalents of RMB1,349 million (2011: increase of RMB820 million).

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

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

**Less than 1    Between    Over 5**

	year	1 and 2	2 and 5	years
		years	years	
	RMB'000	RMB'000	RMB'000	RMB'000
<b>At December 31, 2012</b>				
Borrowings	23,690,528	7,780,344	8,846,834	8,736,557
Derivative financial instruments	504	-	122,751	216,895
Obligations under finance leases	3,004,452	3,059,744	8,685,669	9,027,940
Trade and other payables	18,871,661	71,236	329,988	58,665
Provision for return condition checks for aircraft under operating lease	734,205	818,199	1,381,893	864,465
Other long term liability	26,500	26,988	76,610	79,629
Total	46,327,850	11,756,511	19,443,745	18,984,151
<b>At December 31, 2011</b>				
Borrowings	19,129,172	8,959,738	10,053,089	6,255,055
Derivative financial instruments	1,099	1,987	110,487	219,411
Obligations under finance leases	2,790,844	2,846,797	7,836,047	8,448,826
Trade and other payables	18,650,034	71,410	148,515	67,210
Other long term liability	115,645	117,963	324,703	350,095
Total	40,686,794	11,997,895	18,472,841	15,340,597

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**3. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. The debt ratio at December 31, 2012 and 2011 were as follows:

	2012	2011
	RMB'000	RMB'000
Total liabilities	99,265,166	92,933,774
Total assets	123,818,563	114,738,881
Debt ratio	0.80	0.81

**(c) Fair value estimation of financial assets and liabilities**

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Fair value estimation of financial assets and liabilities  
(continued)

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2012 and December 31, 2011.

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>At December 31, 2012</b>				
<b>Assets</b>				
Derivative financial instruments				
— Forward foreign exchange contracts (Note 39(b))	-	18,074	-	18,074
Available-for-sale financial assets	1,955	-	232,735	234,690
Total	1,955	18,074	232,735	252,764
<b>Liabilities</b>				
Derivative financial instruments				
— Interest rate swaps (Note 39(a))	-	295,005	-	295,005
— Forward foreign exchange contracts (Note 39(b))	-	45,146	-	45,146
Total	-	340,151	-	340,151
<b>At December 31, 2011</b>				
<b>Assets</b>				
Derivative financial instruments				
— Crude oil option contracts (Note 39(a))	-	4,279	-	4,279
— Interest rate swaps (Note 39(b))	-	86	-	86
Available-for-sale financial assets	2,344	-	238,036	240,380
Total	2,344	4,365	238,036	244,745
<b>Liabilities</b>				

Derivative financial instruments

— Interest rate swaps (Note 39(a))	-	267,909	-	267,909
— Forward foreign exchange contracts (Note 39(b))	-	65,075	-	65,075
Total	-	332,984	-	332,984

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**3. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Fair value estimation of financial assets and liabilities  
(continued)**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, these instruments are included in level 2 of the above table.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

<sup>n</sup> Quoted market prices or dealer quotes for similar instruments.

<sup>n</sup> The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

<sup>n</sup> The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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## **CHINA EASTERN AIRLINES CORPORATION LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

##### **(a) Revenue recognition**

The Group recognizes traffic revenues in accordance with the accounting policy stated in Note 2(e) to the financial statements. Unused tickets are recognized in traffic revenues based on current estimates. Management annually evaluates the balance in the SIAC and records any adjustments, which can be material, in the period the evaluation is completed.

These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognizing revenue for any unused air tickets and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which affect the timing of revenue recognition.

##### **(b) Frequent flyer program**

The Group operates frequent flyer programs that provide travel awards to program members based on accumulated miles. A portion of passenger revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired. The deferral of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilization of these benefits and estimated fair values of the unredeemed miles. Different judgments or estimates could significantly affect the estimated provision for frequent flyer programs and the results of operations.

**(c) Provision for costs of return condition checks for aircraft under operating leases**

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

**(d) Retirement benefits**

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employees' service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(y) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is disclosed in Note 37 to the financial statements.

**(e) Deferred income tax**

In assessing the amount of deferred tax assets that need to be recognized in accordance with the accounting policy stated in Note 2(j) to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)**

**(f) Provision for flight equipment spare parts**

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realizable value. The net realizable value is estimated based on current market condition, historical experience and Company's future operation plan for the aircraft and related spare parts. The net realizable value may be adjusted significantly due to the change of market condition and the future plan for the aircraft and related spare parts.

**(g) Depreciation of property, plant and equipment**

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

Except for components related to airframe and engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

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

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2(k) and Note 2(m) to the financial statements. The recoverable amounts of cash generating units have been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometers yield level, load factor, aircraft utilization rate and discount rates, etc.

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****5. REVENUES**

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

	Year ended December 31,		
	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Traffic revenues	79,444,443	76,513,636	67,390,909
– Passenger	71,418,995	68,433,970	58,968,019
– Cargo and mail	8,025,448	8,079,666	8,422,890
Ground service income	1,959,107	2,104,604	1,957,610
Tour operations income	2,111,051	2,115,520	1,932,510
Cargo handling income	160,328	278,724	673,329
Commission income	96,418	95,426	100,016
Others	1,481,970	1,295,220	1,749,285
	85,253,317	82,403,130	73,803,659

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**5. REVENUES (CONTINUED)**

Note:

Before January 1, 2012, the major elements of the Group's revenues were subject to business tax levied at rates of 3% or 5%. The Group's revenues from the provision of international transportation services are exempted from business tax from January 1, 2010, pursuant to the notice of exemption of business tax on the provision of international transportation services (Cai Shui [2010] No. 8) jointly issued by the Ministry of Finance ("MoF") and the State Administration of Taxation ("SAT").

Pursuant to the notice of the pilot program for the transformation of transportation and certain modern service industries in Shanghai from business tax ("BT") to Value Added Tax ("VAT") (Cai Shui [2011] No. 111) issued by MoF and SAT, traffic revenue of the Company and subsidiaries located in Shanghai and other revenues (including ground service income, cargo handling income, commission income and part of others) generated in Shanghai are subjected to VAT levied at rates of 11% or 6% from January 1, 2012, instead of BT.

Pursuant to the notice of the pilot program for the transformation of transportation and certain modern service industries from BT to VAT in Beijing and other eight provinces/cities (Cai Shui [2012] No.71) issued by MoF and SAT, traffic revenue and other revenues (including ground service income, cargo handling income, commission income and part of others) generated by subsidiaries located in Beijing and other eight provinces/cities scoped in the notice are subjected to VAT levied at rates of 11% or 6% with different effective date ranging from 1 September 2012 to 1 December 2012.

The VAT input generated from purchase of fuel, take-off and landing services, food and beverages, property, plant and equipment, and certain BT paid by the branches of the Company outside above notice scope can be used to deduct the VAT output generated from taxable revenue.

The traffic revenue and other revenue generated in other locations of China will continue to be subject to business tax at rates of 3% or 5%.

As a result of the implementation of aforementioned reform from BT to VAT (i.e. the relevant portion of the Group's operations have been changed to VAT instead of BT as they were in prior year), revenue of the Group for the year ended December 31, 2012 decreased by RMB2,954 million and operating expenses of the Group decreased by RMB3,132 million resulting in an increase in profit before income tax of RMB178 million for the year ended December 31, 2012.

The business tax incurred and offset against the above Group's revenues for the year ended December 31, 2012 amounted to approximately RMB670 million (2011: approximately RMB1,803 million).

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****6. OTHER OPERATING INCOME**

	Year ended December 31,		
	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Other operating income (Note)			
- Other government subsidies	1,719,626	1,061,451	658,620
	1,719,626	1,061,451	658,620

Note:

Government subsidies represent (i) subsidies of RMB353 million (2011: RMB78 million) based on certain amount of tax paid granted by governments to the Group; and (ii) subsidies granted by various local governments to encourage the Group to operate certain routes to cities where these governments are located.

There are no unfulfilled conditions and other contingencies related to subsidies that have been recognized for the year ended December 31, 2012.

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**7.SEGMENT INFORMATION**

(a) Chief Operating Decision-maker (“CODM”), office of the General Manager, reviews the Group’s internal reporting in order to assess performance and allocate resources.

The Group has one reportable operating segment, reported as “airline transportation operations”, which comprises the provision of passenger, cargo, mail delivery, ground service and cargo handling income.

Other services including primarily tour operations, air catering and other miscellaneous services are not included within the airline transportation operations segment, as their internal reports are separately provided to the CODM. The results of these operations are included in the “other segments” column.

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

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group’s CODM. The Group’s CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the “PRC Accounting Standards”), which differ from IFRS in certain aspects. The amount of each material reconciling items from the Group’s reportable segment revenue and profit or loss, arising from different accounting policies are set out in Note 7(c) below.

The segment results for the year ended December 31, 2012 are as follows:

Airline transportation Operations RMB’000	Other Segments RMB’000	Elimination RMB’000	Unallocated* RMB’000	Total RMB’000
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Reportable segment revenue from external customers	83,127,233	2,442,017	-	-	85,569,250
Inter-segment sales	-	261,631	(261,631 )	-	-
Reportable segment revenue	83,127,233	2,703,648	(261,631 )	-	85,569,250
Reportable segment profit before income tax	3,176,660	104,938	-	234,058	3,515,656
Other segment information					
Depreciation and amortization	7,892,045	114,430	-	-	8,006,475
Capital expenditure	18,490,801	116,212	-	-	18,607,013

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. SEGMENT INFORMATION (CONTINUED)

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

The segment results for the year ended December 31, 2011 are as follows:

	Airline transportation Operations RMB'000	Other Segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
Reportable segment revenue from external customers	81,597,560	2,376,945	-	-	83,974,505
Inter-segment sales	-	201,989	(201,989 )	-	-
Reportable segment revenue	81,597,560	2,578,934	(201,989 )	-	83,974,505
Reportable segment profit before income tax	4,997,606	41,986	-	128,122	5,167,714
Other segment information					
Depreciation and amortization	7,282,227	88,500	-	-	7,370,727
Impairment losses	799,105	259	-	-	799,364
Capital expenditure	18,159,708	91,985	-	-	18,251,693

The segment results for the year ended December 31, 2010 are as follows:

	Airline transportation Operations RMB'000	Other Segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
Reportable segment revenue from external customers	72,029,550	2,928,558	-	-	74,958,108
Inter-segment sales	427,141	295,335	(722,476 )	-	-

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Reportable segment revenue	72,456,691	3,223,893	(722,476 )	-	74,958,108
Reportable segment profit before income tax	5,633,323	88,407	-	119,363	5,841,093
Other segment information					
Depreciation and amortization	6,916,308	69,397	-	-	6,985,705
Impairment losses	425,772	1,289	-	-	427,061
Capital expenditure	22,752,632	336,978	-	-	23,089,610

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****7.SEGMENT INFORMATION (CONTINUED)**

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

The segment assets and liabilities as at December 31, 2012, 2011 and 2010 are as follows:

	Airline transportation Operations RMB'000	Other Segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
At December 31, 2012					
Reportable segment assets	116,461,666	4,706,382	(1,691,890)	1,486,321	120,962,479
Reportable segment liabilities	94,047,698	3,564,029	(1,691,890)	-	95,919,837
At December 31, 2011					
Reportable segment assets	106,818,323	4,658,780	(763,176 )	1,501,225	112,215,152
Reportable segment liabilities	87,272,414	3,560,501	(763,176 )	-	90,069,739
At December 31, 2010					
Reportable segment assets	97,500,563	2,045,617	(191,907 )	1,455,844	100,810,117
Reportable segment liabilities	83,387,701	1,038,146	(191,907 )	-	84,233,940

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

**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****7.SEGMENT INFORMATION (CONTINUED)**

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

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

- (1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan (collectively known as "Regional")) is classified as domestic operations. Traffic revenue generated from international routes (excluding regional routes) is classified as international operations.

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

	2012 RMB'000	2011 RMB'000	2010 RMB'000
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	57,612,675	57,675,579	51,060,489
Regional (Hong Kong, Macau and Taiwan)	3,704,064	3,771,339	3,900,952
International	24,252,511	22,527,587	19,996,667
Total	85,569,250	83,974,505	74,958,108

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

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

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	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Revenue			
Reportable segment revenue	85,569,250	83,974,505	74,958,108
–Reclassification of business tax and expired sales in advance of carriage	(i) (315,933 )	(1,571,375 )	(1,154,449 )
Consolidated revenue	85,253,317	82,403,130	73,803,659

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7.SEGMENT INFORMATION (CONTINUED)

(c) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities to the consolidated figures as reported in the consolidated financial statements (continued).

	2012 RMB'000	2011 RMB'000	2010 RMB'000
Profit before income tax			
Reportable segment profit	3,515,656	5,167,714	5,841,093
–Difference in depreciation charges for aircraft due to different depreciation lives	(ii) (21,958 )	(9,288 )	(83,765 )
–Provision for post-retirement benefits	(iii) (401,901 )	(326,145 )	(347,936 )
–Others	(79,393 )	8,420	8,420
Consolidated profit before income tax	3,012,404	4,840,701	5,417,812

	2012 RMB'000	2011 RMB'000	2010 RMB'000
Assets			
Reportable segment assets	120,962,479	112,215,152	100,810,117
–Difference in depreciation charges for aircraft due to different depreciation lives	(ii) 52,901	74,859	84,147
–Difference in intangible asset (goodwill) arising from the acquisition of Shanghai Airlines	(iv) 2,760,665	2,760,665	2,760,665
–Others	42,518	(311,795 )	(321,213 )
Consolidated total assets	123,818,563	114,738,881	103,333,716

	2012 RMB'000	2011 RMB'000	2010 RMB'000
Liabilities			
Reportable segment liabilities	95,919,837	90,069,739	84,233,940
–Provision for post-retirement benefits	(iii) 3,345,329	2,943,428	2,617,283
–Others	-	(79,393 )	(79,393 )
Consolidated total liabilities	99,265,166	92,933,774	86,771,830



**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**7. Segment information (continued)**

- (c) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities to the consolidated figures as reported in the consolidated financial statements (continued).

Notes:

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

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

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

- (iv) The determination of the fair values of the acquisition costs and identifiable assets and liabilities of Shanghai Airlines acquired is different under IFRS and the PRC Accounting Standards, which results in difference in the intangibles/goodwill recognized arising from the acquisition.

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****8. GAIN ON FAIR VALUE MOVEMENTS OF DERIVATIVES FINANCIAL INSTRUMENTS**

	Year ended December 31,		
	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Gain arising from fair value movements of derivatives financial instruments			
- Interest rate swap and forward foreign exchange contracts (Note 39(a) & (b))	15,755	19,541	33,189
- Crude oil option contracts	9,076	67,310	800,195
	24,831	86,851	833,384

**9. WAGES, SALARIES AND BENEFITS**

	Year ended December 31,		
	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Wages, salaries, bonus and allowances	7,007,883	5,992,672	6,567,729
Employee welfare and benefits	428,791	335,464	361,149
Defined contribution retirement schemes (Note 37(a))	1,262,017	1,142,167	996,326
Post-retirement benefits (Note 37(b))	581,775	478,502	479,514
Staff housing fund (Note 38 (a))	607,336	544,674	422,167
Staff housing allowance (Note 38 (b))	171,241	171,375	113,901
	10,059,043	8,664,854	8,940,786

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. IMPAIRMENT CHARGES/ (REVERSALS)

	Year ended December 31,		
	2012 RMB'000	2011 RMB'000	2010 RMB'000
Impairment charges on assets held for sale (Note (b))	-	612,216	256,694
(Reversal of)/provision for impairment charges on flight equipment spare parts(Note (a))	(103,337)	26,100	148,697
Impairment charge on property, plant and equipment	89,870	-	-
	(13,467 )	638,316	405,391

Note:

After acquisition of Shanghai Airlines Co., Ltd. ("Shanghai Airlines") in 2010, the Company has reviewed the composition of its aircraft fleet, aiming to simply the models of aircraft and maximizes operation efficiencies. In 2012, the Company has defined the main model of aircraft for future operation and signed series of contracts to (a) dispose other models of aircraft between 2014 and 2016. As a consequence, the Company has reassessed the provision for the flight equipment spare parts in relation to the main models of aircraft and also the spare parts in relation to the aircraft to be disposed, and reversed provision of RMB103 million during the year ended December 31, 2012 in accordance with the reassessment results.

In December 2011, the Group management entered into an agreement with a third party to dispose certain aircraft and related engines in the forthcoming 12 months in view of high maintenance costs of those aircraft. The aircraft (b) and engines has been classified as assets held for sale at December 31, 2011, and an impairment loss of approximately RMB612 million was made against those aircraft and engines by reference to the contracted selling price less estimated cost to sell (Note 43).

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11. OPERATING PROFIT**

Operating profit is stated after charging the following items:

	Year ended December 31,		
	2012 RMB'000	2011 RMB'000	2010 RMB'000
Amortization of intangible assets	38,404	26,167	49,681
Depreciation of property, plant and equipment			
- Owned	5,073,307	4,523,903	4,353,668
- Leased (finance leases)	2,397,541	2,361,919	2,323,302
Amortization of lease prepayments	47,658	41,777	31,186
Consumption of flight equipment spare parts	747,268	739,663	601,407
(Reversal)/provision of impairment of trade and other receivables	(6,872)	161,048	1,545
Auditors' remuneration	12,880	16,100	16,680

**12. FINANCE INCOME**

	Year ended December 31,		
	2012 RMB'000	2011 RMB'000	2010 RMB'000
Exchange gains, net (Note)	147,836	1,872,369	1,074,796
Interest income	200,765	151,633	80,588
	348,601	2,024,002	1,155,384

Note:

The exchange gain primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases.



**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****13. FINANCE COSTS**

	Year ended December 31,		
	2012 RMB'000	2011 RMB'000	2010 RMB'000
Interest on bank borrowings	1,359,644	1,379,452	1,234,837
Interest relating to obligations under finance leases	411,547	268,487	279,095
Interest on bonds and debentures	149,425	40,833	-
Interest relating to notes payable	73,855	34,289	143,482
	1,994,471	1,723,061	1,657,414
Less: Amounts capitalized into advanced payments on acquisition of aircraft (Note)	(296,997 )	(253,027 )	(150,668 )
Amounts capitalized into construction in progress (Note)	-	(7,307 )	(4,846 )
	1,697,474	1,462,727	1,501,900

Note:

The average interest rate used for interest capitalization is 3.73% per annum for the year ended December 31, 2012 (2011: 3.84%, 2010: 3.75%).

**14. INCOME TAX**

Income tax charged to the consolidated income statement is as follows:

	Year ended December 31,		
	2012 RMB'000	2011 RMB'000	2010 RMB'000
Provision for PRC income tax	214,944	255,947	125,309
Deferred taxation (Note 36)	(10,143 )	8,282	8,182

204,801 264,229 133,491

Prior to 2008, the Company and certain of its subsidiaries (the “Pudong Subsidiaries”) located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong District, Shanghai. Under the Corporate Income Tax Law of the People’s Republic of China (the “New CIT Law”), which was approved by the National People’s Congress on 16 March 2007 and became effective from January 1, 2008, the Company and the Pudong Subsidiaries are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to 25% over five years from 2008. For the year ended December 31, 2012, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries was 25% (2011: 24%, 2010: 22%). Other subsidiaries of the Company, except for those incorporated in Hong Kong, which are subject to Hong Kong corporate income tax rate of 16.5% (2011: 16.5%, 2010: 16.5%), are generally subject to the PRC standard corporate tax rate of 25 % (2011: 25%, 2010: 25%) under the New CIT Law.

Pursuant to the "Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issues Concerning Relevant Tax Policies for Enhancing the Implementation of Western Region Development Strategy" (Cai Shui [2011] No.58), and other serious of tax regulations, the enterprises, located in the western regions and engaged in the industrial activities as listed in the "Catalogue of Encouraged Industries in Western Regions", will be entitled to a reduced income tax rate of 15% from 2011 to 2020 upon approval from tax authorities. In 2012, China Eastern Yunnan Airlines Co., Ltd. (“CEA Yunnan”), a subsidiary of the Group, obtained approval from tax authorities and enjoy the reduced tax rate of 15% from January 1, 2011.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. INCOME TAX (CONTINUED)

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

	Year ended December 31,		
	2012 RMB'000	2011 RMB'000	2010 RMB'000
Profit before income tax	3,012,404	4,840,701	5,417,812
Adjusted by:			
Share of result of associates and jointly controlled entities	(133,169 )	(106,872 )	(67,382 )
	2,879,235	4,733,829	5,350,430
Tax calculated at the tax rate of 25% (2011: 24%; 2010: 22%)	719,809	1,136,119	1,177,095
Effect attributable to subsidiaries charged at tax rates of 15% or 16.5% (2011: 25% or 16.5%; 2010: 25% or 16.5%)	(48,669 )	10,637	1,170
Income not subject to tax	-	(12,426 )	(14,829 )
Expenses not deductible for tax purposes	12,989	31,858	21,009
Utilization of previously unrecognized tax losses	(654,996 )	(1,222,570)	(1,682,357)
Unrecognized tax losses for the year	210,777	95,291	30,273
Realization deductible temporary differences which were not recognized deferred tax in previous years	-	-	(349,606 )
(Realization of)/Unrecognized deductible temporary differences for the year	(35,109 )	225,320	950,736
Tax charge	204,801	264,229	133,491

The Group operates international flights to overseas destinations. There was no material overseas taxation for the year ended December 31, 2012 and 2011, as there are avoidance of double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.



**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**15. DIVIDEND**

The Board has not recommended any dividend for the years ended December 31, 2012, 2011 and 2010.

**16. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY**

The profit attributable to equity shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB2,661 million (2011: RMB4,523 million; 2010: RMB4,422 million).

**17. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB2,954 million (2011: RMB4,576 million; 2010: RMB4,958 million) and the weighted average number of shares of 11,276,538,860 (2011: 11,276,538,860; 2010: 11,149,426,000) in issue during the year ended December 31, 2012. The Company has no potentially dilutive option or other instruments relating to the ordinary shares.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. INTANGIBLE ASSETS

	Goodwill (Note (a)) RMB'000	Computer software RMB'000	<b>Total</b> RMB'000
Cost			
At January 1, 2011	11,269,695	217,411	11,487,106
Additions	-	46,381	46,381
At December 31, 2011	11,269,695	263,792	11,533,487
At January 1, 2012	11,269,695	263,792	11,533,487
Additions	-	133,913	133,913
At December 31, 2012	11,269,695	397,705	11,667,400
Accumulated amortization			
At January 1, 2011	-	153,730	153,730
Charge for the year	-	26,167	26,167
At December 31, 2011	-	179,897	179,897
At January 1, 2012	-	179,897	179,897
Charge for the year	-	38,404	38,404
At December 31, 2012	-	218,301	218,301
Net book amount			
At December 31, 2011	11,269,695	83,895	11,353,590
At December 31, 2012	11,269,695	179,404	11,449,099

**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**18. INTANGIBLE ASSETS (CONTINUED)**

Notes:

The balance represents the goodwill arising from the acquisition of Shanghai Airlines. The goodwill is attributable to strengthening the competitiveness of the Group's airlines operation business, attaining synergy through (a) integration of the resources and providing the evolution of Shanghai international air transportation center. For the purpose of impairment assessment, the goodwill is allocated to the airline operation business, the principal cash-generating-unit ("CGU") that the Group operates and benefits from the acquisition.

The recoverable amount of the CGU is principally based on the Company's fair value, which is determined by reference to the observable quoted market price of the Company's shares less the costs of disposal. No impairment for the goodwill is required based on the Company's fair value as at the balance sheet date.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. PROPERTY, PLANT AND EQUIPMENT

	Aircraft, engines and flight equipment		Buildings	Other property, plant and equipment	Construction in progress	Total
	Owned	Held under finance leases				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>						
At January 1, 2012	59,860,668	37,640,743	5,237,670	5,632,102	2,139,160	110,510,343
Transfers from construction in progress	-	-	1,584,745	69,657	(1,654,402)	-
Transfers from advanced payments on acquisition of aircraft (Note 21)	4,716,802	1,982,177	-	-	-	6,698,979
Sales and finance leased back	(1,583,999)	1,583,999	-	-	-	-
Additions	5,443,597	2,862,007	3,721	562,357	1,576,395	10,448,077
Other decrease	(25,656)	(664,141)	-	-	-	(689,797)
Transfer to other long term assets	-	-	-	-	(55,506)	(55,506)
Disposals	(906,650)	(486,316)	(7,079)	(195,284)	-	(1,595,329)
At December 31, 2012	67,504,762	42,918,469	6,819,057	6,068,832	2,005,647	125,316,767
<b>Accumulated depreciation</b>						
At January 1, 2012	22,677,254	8,391,720	1,293,602	3,538,955	-	35,901,531
Charge for the year	4,394,601	2,397,541	234,749	443,957	-	7,470,848
Sales and finance leased back	(32,363)	32,363	-	-	-	-
Disposals	(855,457)	(486,315)	(5,062)	(148,301)	-	(1,495,135)
At December 31, 2012	26,184,035	10,335,309	1,523,289	3,834,611	-	41,877,244
<b>Impairment</b>						
At January 1, 2012	721,101	107,770	-	550	21,596	851,017
Charge for the year	89,870	-	-	-	-	89,870
Disposals	(20,125)	-	-	-	-	(20,125)

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At December 31, 2012	790,846	107,770	-	550	21,596	920,762
Net book amount						
At December 31, 2012	40,529,881	32,475,390	5,295,768	2,233,671	1,984,051	82,518,761
At January 1, 2012	36,462,313	29,141,253	3,944,068	2,092,597	2,117,564	73,757,795

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Aircraft, engines and flight equipment		Buildings	Other property, plant and equipment	Construction in progress	Total
	Owned	Held under finance leases				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At January 1, 2011	55,025,526	36,728,572	4,881,463	5,256,126	1,063,659	102,955,346
Transfers from construction in progress	-	-	310,006	179,927	(489,933 )	-
Transfers from advanced payments on acquisition of aircraft (Note 21)	1,591,142	2,230,271	-	-	-	3,821,413
Additions	4,022,991	2,967,931	78,279	533,186	1,720,738	9,323,125
Transfer to assets held for sale (Note 43)	-	(3,863,025 )	-	-	-	(3,863,025 )
Transfer to lease prepayments	-	-	-	-	(153,880 )	(153,880 )
Disposals	(778,991 )	(423,006 )	(32,078 )	(337,137 )	(1,424 )	(1,572,636 )
At December 31, 2011	59,860,668	37,640,743	5,237,670	5,632,102	2,139,160	110,510,343
Accumulated depreciation						
At January 1, 2011	19,584,570	8,855,680	1,125,373	3,349,386	-	32,915,009
Charge for the year	3,871,675	2,361,919	177,049	475,179	-	6,885,822
Transfer to assets held for sale (Note 43)	-	(2,402,873 )	-	-	-	(2,402,873 )
Disposals	(778,991 )	(423,006 )	(8,820 )	(285,610 )	-	(1,496,427 )
At December 31, 2011	22,677,254	8,391,720	1,293,602	3,538,955	-	35,901,531

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Aircraft, engines and flight equipment		Buildings	Other property, plant and equipment	Construction in progress	Total
	Owned	Held under finance leases				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Impairment						
At January 1, 2011	721,101	473,393	-	550	23,020	1,218,064
Transfer to assets held for sale (Note 43)	-	(365,623)	-	-	-	(365,623)
Disposals	-	-	-	-	(1,424)	(1,424)
At December 31, 2012	721,101	107,770	-	550	21,596	851,017
Net book amount						
At December 31, 2011	36,462,313	29,141,253	3,944,068	2,092,597	2,117,564	73,757,795
At January 1, 2011	34,719,855	27,399,499	3,756,090	1,906,190	1,040,639	68,822,273

Note:

As at December 31, 2012, certain aircraft and buildings owned by the Group with an aggregate net book amount (a) of approximately RMB22,544 million (2011: approximately RMB18,317 million, 2010: approximately RMB20,800 million) were pledged as collateral under certain loan arrangements (Note 33).

## 20. LEASE PREPAYMENTS

	December 31,	
	2012	2011
	RMB'000	RMB'000
Cost		
At January 1	1,796,276	1,696,575
Additions	358,232	159,306

Disposals	-	(59,605 )
At December 31	2,154,508	1,796,276
Accumulated amortization		
At January 1	325,004	290,419
Charge for the year	47,658	41,777
Disposals	-	(7,192 )
At December 31	372,662	325,004
Net book amount		
At December 31	1,781,846	1,471,272

Lease prepayments represent unamortized prepayments for land use rights.

The Group's land use rights are located in the PRC and the majority of these land use rights have terms of 50 years from the date of grant. As at December 31, 2012, the majority of these land use rights had remaining terms ranging from 34 to 50 years (2011: from 35 to 50 years).



**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****21. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT**

	December 31,	
	2012	2011
	RMB'000	RMB'000
At January 1	10,968,344	6,356,602
Payment during the year	7,328,529	8,180,128
Interest capitalized (Note 13)	296,997	253,027
Transfers to property, plant and equipment (Note 19)	(6,698,979 )	(3,821,413 )
At December 31	11,894,891	10,968,344

Included in the Group's balance as at December 31, 2012, the amount of accumulated interest capitalized was approximately RMB630 million (2011: RMB632 million).

**22. INVESTMENTS IN ASSOCIATES**

	December 31,	
	2012	2011
	RMB'000	RMB'000
Unlisted investments, at cost	620,329	622,768
Share of results/reserves	213,143	214,821
	833,472	837,589

The movement on investments in associates is as follows:

	December 31,	
	2012	2011
	RMB'000	RMB'000
At January 1	837,589	807,669
Share of results of associates	103,209	75,435
Share of revaluation on available-for-sale investments held by an associate	2,188	(2,701 )
Disposal of associates	(2,439 )	-

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Dividend received/declared during the year	(107,075)	(42,814 )
At December 31	833,472	837,589

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

Company	Place and date of establishment	Registered capital		Attributable equity interest		Principal activities
		2012	2011	2012	2011	
		RMB'000	RMB'000			
Eastern Air Group Finance Co., Ltd. ("Eastern Finance")	PRC December 6, 1995	400,000	400,000	25 %	25 %	Provision of financial services to Group companies of CEA Holding
China Eastern Air Catering Investment Co., Ltd.	PRC November 17, 2003	350,000	350,000	45 %	45 %	Provision of air catering services
Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited ("Shanghai P&W") (Note(a))	PRC March 28, 2008	USD39,500	USD39,500	51 %	51 %	Provision of maintenance of aircraft, engine and other related components maintenance services
New Shanghai International Tower Co., Ltd.	PRC November 17, 1992	166,575	166,575	20 %	20 %	Provision of Property development and management
	PRC	80,000	80,000	45 %	45 %	

Eastern Aviation Import & Export Co., Ltd (“Eastern Import & Export”)	June 9, 1993					Provision of aviation equipment, spare parts purchase
Shanghai Dongmei Aviation Travel Co., Ltd. (“Dongmei Travel”)	PRC October 17, 2004	51,369	51,369	27 %	27 %	Provision of traveling and accommodation agency services
Eastern Aviation Advertising Service Co., Ltd. (“Eastern Advertising”)	PRC March 4, 1986	50,000	50,000	45 %	45 %	Provision of aviation advertising agency services

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. INVESTMENTS IN ASSOCIATES (CONTINUED)

Company	Place and date of establishment	Registered capital		Attributable equity interest		Principal activities
		2012	2011	2012	2011	
		RMB'000	RMB'000			
Shanghai Hongpu Civil Airport Communication Co., Ltd.	PRC October 18, 2002	25,000	25,000	30 %	30 %	Provision of cable and wireless communication services
Collins Aviation Maintenance Service Shanghai Ltd.	PRC September 27, 2002	USD7,000	USD7,000	35 %	35 %	Provision of airline electronic product maintenance services

Notes:

In 2008, the Company entered into an agreement with United Technologies International Corporation ("Technologies International") to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Company (a) Limited ("Shanghai P&W"). Shanghai P&W has a registered capital of USD40 million in which the Company holds 51% interests. According to the shareholder's agreement, Technologies International has the power to govern the financial and operating policies and in this respect the Company accounts for Shanghai P&W as an associate.

(b) The Group's aggregated share of the revenues, results, assets and liabilities of its associates are as follows:

Assets	Liabilities	Revenues	Profit
RMB'000	RMB'000	RMB'000	RMB'000

2012	4,021,663	3,188,191	2,973,719	103,209
2011	3,728,129	2,890,540	2,417,786	75,435

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES**

	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	323,238	323,238
Share of results/reserves	94,921	100,018
	418,159	423,256

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

	2012 RMB'000	2011 RMB'000
At January 1	423,256	406,170
Share of results	29,960	31,437
Dividend received/declared during the year	(35,057 )	(14,351 )
At December 31	418,159	423,256

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

Company	Place and date of establishment	Paid-up capital		Attributable equity interest		Principal activities
		2012	2011	2012	2011	
		RMB'000	RMB'000			
Shanghai Technologies Aerospace Co., Ltd. ("Technologies Aerospace") (Note (a))	PRC September 28, 2004	USD73,000	USD73,000	51 %	51 %	Provision of repair and maintenance services

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Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd (“Wheels & Brakes”)	PRC  December 28, 1995	USD2,100	USD2,100	40 %	40 %	Provision of spare parts repair and maintenance services
Eastern China Kaiya System Integration Co., Ltd.	PRC  May 21, 1999	RMB10,000	RMB10,000	41 %	41 %	Provision of computer systems development and maintainance services

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)**

Notes:

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

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

	Assets	Liabilities	Revenues	Profit
	RMB'000	RMB'000	RMB'000	RMB'000
2012	494,042	75,883	312,600	29,960
2011	524,573	101,317	287,822	31,437

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****24. OTHER LONG-TERM ASSETS**

	December 31,	
	2012	2011
	RMB'000	RMB'000
Deposits relating to aircraft under operating leases (Note (a))	807,543	749,580
Deferred pilot recruitment costs (Note (b))	869,082	886,177
Other long-term assets	281,631	294,077
	1,958,256	1,929,834

## Notes:

The fair value of deposits relating to aircraft held under operating leases of the Group is approximately RMB722 (a)million (2011: RMB685 million), which is determined using the expected future refunds discounted at market interest rates at the year end.

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

**25. FLIGHT EQUIPMENT SPARE PARTS**

	December 31,	
	2012	2011
	RMB'000	RMB'000
Flight equipment spare parts	2,765,291	2,506,388
Less: provision for spare parts	(677,313 )	(950,844 )
	2,087,978	1,555,544

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realizable value. The net realizable value is estimated based on current market condition, historical experience and Company's future operation plan for the aircraft and related spare parts.

	December 31,	
	2012	2011
	RMB'000	RMB'000
At January 1	950,844	986,100
Provision written off in relation to disposal of spare parts	(170,194)	(61,356 )
Provision for/(reversal of) impairment of spare parts(Note 10(a)&(b))	(103,337)	26,100
At December 31	677,313	950,844

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****26. TRADE RECEIVABLES**

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

The aging analysis of trade receivables is as follows:

	December 31,	
	2012	2011
	RMB'000	RMB'000
Within 90 days	2,851,736	2,381,707
91 to 180 days	68,488	79,636
181 to 365 days	35,995	38,382
Over 365 days	208,770	237,356
	3,164,989	2,737,081
Less: provision for impairment of receivables	(202,808 )	(233,055 )
Trade receivables	2,962,181	2,504,026

Balances with related companies included in trade receivables are summarized in Note 46(c)(i).

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

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

As at December 31, 2012, trade receivables of RMB137 million (2011: RMB101 million) were past due but not impaired. These relate to a number of independent sales agents for whom there is no recent history of default. The Group holds cash deposits of RMB680 million (2011: RMB627 million) from these agents. The ageing analysis of

these trade receivables is as follows:

	December 31,	
	2012	2011
	RMB'000	RMB'000
Within 90 days	48,017	31,974
91 to 180 days	52,997	41,793
181 to 365 days	35,995	26,920
	137,009	100,687

As at December 31, 2012, trade receivables of RMB167 million (2011: RMB198 million) were impaired and fully provided for. The remaining impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The factors considered by management in determining the impairment are described in Note 2(s).

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****26. TRADE RECEIVABLES (CONTINUED)**

The ageing of impaired receivables is as follows:

	December 31,	
	2012	2011
	RMB'000	RMB'000
181 to 365 days over due	15,490	9,910
1 to 2 years overdue	22,714	25,873
Over 2 years overdue	186,057	211,483
	224,261	247,266

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

	2012	2011
	RMB'000	RMB'000
At January 1	233,055	245,961
Receivables written off during the year as uncollectible	(30,064 )	(13,970 )
Provision for/(reversal of) impairment of receivables	(183 )	1,064
At December 31	202,808	233,055

The net impact of creation and release of provisions for impaired receivables have been included in 'Provision for impairment of trade and other receivables' in the income statement (Note 11). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

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

December 31,	
2012	2011

	RMB'000	RMB'000
Currency		
Renminbi	2,510,514	2,124,351
Japanese Yen	161,020	140,143
US Dollars	119,362	131,720
Euro	156,354	121,646
HK Dollars	66,565	121,089
Other currencies	151,174	98,132
	3,164,989	2,737,081

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

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****27. PREPAYMENTS AND OTHER RECEIVABLES**

	December 31,	
	2012	2011
	RMB'000	RMB'000
VAT recoverable	920,135	-
Rebate receivables on aircraft acquisitions	676,126	836,647
Amounts due from related companies (Note 46(c)(i))	402,844	249,865
Prepaid aircraft operating lease rentals	314,600	280,638
Rental deposits	236,508	222,455
Others	1,106,486	1,148,628
Subtotal	3,656,699	2,738,233
Less: bad debt provision	(288,051 )	(327,338 )
	3,368,648	2,410,895

**28. RESTRICTED BANK DEPOSITS AND SHORT-TERM BANK DEPOSITS**

	2012	2011
	RMB'000	RMB'000
Bank deposits with original maturity over three months but less than a year	1,657,568	2,616,057
Restricted bank deposits	68,683	278,230
	1,726,251	2,894,287

Notes:

As at December 31, 2012, the deposits are primarily denominated in RMB and bore effective interest rates ranging from 2.85% to 4.65% per annum (2011: 0.5% to 5.3% per annum).



**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****28. RESTRICTED BANK DEPOSITS AND SHORT-TERM BANK DEPOSITS (CONTINUED)**

The carrying amounts of the Group's restricted bank deposits and short-term bank deposits are denominated in the following currencies:

	December 31,	
	2012	2011
	RMB'000	RMB'000
Renminbi	1,625,891	2,837,308
Japanese Yen	39,724	24,637
US Dollars	16,082	16,145
HK Dollars	15,973	6,895
Euro	9,818	9,302
Other currencies	18,763	-
	1,726,251	2,894,287

**29. CASH AND CASH EQUIVALENTS**

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

	December 31,	
	2012	2011
	RMB'000	RMB'000
Renminbi	1,933,933	3,249,932
US Dollars	372,388	520,976
Euro	38,172	19,753
Japanese Yen	30,451	5,425
Hong Kong Dollars	25,528	26,219
Others	111,224	38,668
	2,511,696	3,860,973

**30. TRADE PAYABLES AND NOTES PAYABLE**

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

	December 31,	
	2012	2011
	RMB'000	RMB'000
Within 90 days	1,473,087	1,761,478
91 to 180 days	397,815	217,331
181 to 365 days	675,630	409,475
1 to 2 years	378,922	153,498
Over 2 years	149,871	150,842
	3,075,325	2,692,624

As at December 31, 2012, the trade payables and notes payable balances of the Group included amounts due to related companies of RMB1,950 million (2011: RMB1,216 million)(Note 46(c)(ii)).

As at December 31, 2012, notes payable amounted to RMB250 million (2011: RMB48 million), which were unsecured, bore effective interest rates ranging from 4.65% to 4.68% per annum (2011: 6% to 8%) and are repayable within six months.

**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****31. OTHER PAYABLES AND ACCRUED EXPENSES**

	December 31,	
	2012	2011
	RMB'000	RMB'000
Accrued salaries, wages and benefits	2,210,517	2,657,376
Accrued take-off and landing charges	2,127,855	1,885,898
Accrued fuel cost	2,175,948	2,223,904
Accrued expenses related to aircraft overhaul conducted	1,675,056	1,941,007
Duties and levies payable	1,574,574	1,750,389
Other accrued operating expenses	2,038,930	1,571,843
Deposits received from ticket sales agents	680,318	627,006
Current portion of other long-term liabilities (Note 35)	314,996	398,701
Staff housing allowance (Note 38(b))	391,358	389,719
Amounts due to related companies (Note 46(c) (ii))	194,884	96,590
Current portion of post-retirement benefit obligations (Note 37(b))	85,800	83,483
Other payables	2,785,989	2,641,371
	16,256,225	16,267,287

**32. OBLIGATIONS UNDER FINANCE LEASES**

As at December 31, 2012, the Group had 98 aircrafts (2011: 80 aircrafts) under finance leases. Under the terms of the leases, the Group has the option to purchase, at or near the end of the lease terms, certain aircraft at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

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

December 31, 2012			December 31, 2011		
Minimum lease payments	Interest	Present value of minimum lease	Minimum lease payments	Interest	Present value of minimum

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	payments					lease
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	payments
						RMB'000
Within one year	3,004,452	399,183	2,605,269	2,790,844	331,585	2,459,259
In the second year	3,059,744	355,576	2,704,168	2,846,797	288,703	2,558,094
In the third to fifth year inclusive	8,685,669	760,777	7,924,892	7,836,047	600,836	7,235,211
After the fifth year	9,027,940	404,291	8,623,649	8,448,826	440,568	8,008,258
Total	23,777,805	1,919,827	21,857,978	21,922,514	1,661,692	20,260,822
Less: amount repayable within one year	(3,004,452 )	(399,183 )	(2,605,269 )	(2,790,844 )	(331,585 )	(2,459,259 )
Long-term portion	20,773,353	1,520,644	19,252,709	19,131,670	1,330,107	17,801,563

The fair value of obligations under finance leases of the Group is RMB22,883million (2011: RMB20,866 million), which is determined using the expected future payments discounted at market interest rates prevailing at the year end.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33. BORROWINGS

	December 31,	
	2012	2011
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings		
– secured(Note (a))	15,780,892	11,988,500
– unsecured(Note (b))	4,815,271	9,114,963
Guaranteed bonds (Note (c))	2,500,000	2,500,000
	23,096,163	23,603,463
Current		
Long-term bank borrowings		
– secured(Note (a))	2,612,055	1,973,744
– unsecured(Note (b))	7,147,656	4,743,506
Short-term bank borrowings		
– secured(Note (a))	-	221,948
– unsecured(Note (b))	8,880,244	11,231,932
Short-term debentures (Note (d))	4,000,000	-
	22,639,955	18,171,130
Total borrowings	45,736,118	41,774,593
The borrowings are repayable as follows:		
Within one year	22,639,955	18,171,130
In the second year	7,272,821	8,407,984
In the third to fifth year inclusive	7,905,631	9,391,440
After the fifth year	7,917,711	5,804,039
Total borrowings	45,736,118	41,774,593

Notes:

(a) As at December 31, 2012, the secured bank borrowings of the Group were pledged by the related aircrafts and buildings with an aggregate net book amount of RMB22,544 million (2011: RMB18,317 million) (Note 19).

- (b) Certain unsecured bank borrowings of the Group totaling of RMB95 million (2011: RMB228 million) were guaranteed by CEA Holding (Note 46(c)).

- (c) On August 1, 2011, Eastern Air Overseas (Hong Kong) Corporation Limited (“Eastern Air Overseas HK”), a wholly owned subsidiary of the Company, issued three-year guaranteed bonds with a principal amount of RMB2.5 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 4% per annum, which is payable semi-annually. The principle of the bonds will mature and be repayable on August 8, 2014.

The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

- (d) On September 13, 2012, the Company issued short-term debentures with a principal of RMB4 billion. The debentures bear interest at the rate of 4.1% per annum. The principal and interest will mature and repayable on June 10, 2013.

**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****33. BORROWINGS (CONTINUED)**

The terms of the long-term borrowings are summarized as follows:

Currency	Interest rate and final maturities	2012 RMB'000	2011 RMB'000
RMB denominated	Interest rate ranging from 4.86% to 6.4% with final maturities through to 2020	3,953,340	8,844,130
USD denominated	Interest rate ranging from LIBOR 6+0.03% to LIBOR 6+5.3% with final maturities through to 2022	26,402,534	18,976,583
Guaranteed bonds RMB denominated	interest rate of 4.00% with final maturities through to 2014	2,500,000	2,500,000
Total long-term borrowings		32,855,874	30,320,713

Notes:

The fair value of long-term borrowings of the Group is RMB 32,881 million (2011: RMB30,363 million), which is determined using the expected future payments discounted at prevailing market interest rates available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date.

Short-term borrowings of the Group are repayable within one year. As at December 31, 2012, the interest rates relating to such borrowings ranged from 1.11% to 6.56% per annum (2011: 1.30 % to 6.31% per annum).

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

2012	2011
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	RMB'000	RMB'000
Renminbi	13,827,340	16,779,919
US Dollars	31,605,345	24,994,674
Japanese Yen	303,433	-
	45,736,118	41,774,593

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****34. PROVISION FOR RETURN CONDITION CHECKS FOR AIRCRAFT UNDER OPERATING LEASES**

	December 31,	
	2012	2011
	RMB'000	RMB'000
At January 1	3,299,126	2,814,503
Additional provisions	872,770	801,309
Utilization	(373,134 )	(316,686 )
At December 31	3,798,762	3,299,126
Less: current portion	(734,205 )	(375,409 )
Long-term portion	3,064,557	2,923,717

In respect of aircraft and engines under operating leases, the Group has obligations to fulfill certain return conditions under the leases. The balance as at December 31, 2012 represents the provision for the estimated cost of these return condition checks which is made on a straight line basis over the term of the leases.

**35. OTHER LONG-TERM LIABILITIES**

	December 31,	
	2012	2011
	RMB'000	RMB'000
Fair value of unredeemed points awarded under the Group's frequent flyer program	1,624,248	1,424,709
Long-term duties and levies payable rating to finance leases	209,727	908,406
Other long-term payables	116,558	112,685
	1,950,533	2,445,800
Less: Current portion included in other payables and accrued expenses(Note:31)	(314,996 )	(398,701 )
Long-term portion	1,635,537	2,047,099

**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****36. Deferred taxation**

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

	December 31,	
	2012	2011
	RMB'000	RMB'000
Deferred tax assets		
– Deferred tax asset to be utilized after 12 months	53,708	41,687
– Deferred tax asset to be utilized within 12 months	853	2,731
	54,561	44,418
Deferred tax liabilities		
– Deferred tax liability to be realized after 12 months	(29,326)	(29,326 )
Net deferred tax assets	25,235	15,092

Movements in the net deferred tax assets are as follows:

	2012	2011
	RMB'000	RMB'000
At January 1	15,092	23,374
Charged to income statement (Note 14)	10,143	(8,282 )
At December 31	25,235	15,092

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36. Deferred TAXATION (CONTINUED)

The deferred tax assets and liabilities (prior to the offsetting of balances within the same tax jurisdiction) were made up of the taxation effects of the following:

	December 31,	
	2012	2011
	RMB'000	RMB'000
Deferred tax assets:		
Impairment provision for obsolete flight equipment spare parts	40,408	70,071
Impairment provision for receivables	23,950	34,745
Impairment provision for property, plant and equipment	43,222	78,286
Derivative financial liabilities	20,339	29,201
Provision for post-retirement benefits	196,580	230,361
	324,499	442,664
Deferred tax liabilities:		
Depreciation and amortization	(294,745)	(426,481)
Derivative financial assets	(4,519 )	(1,091 )
	(299,264)	(427,572)
	25,235	15,092

Movements of the net deferred tax assets of the Group for the year:

	At the beginning of the year	(Charged)/ credited to income statement	At the end of the year
	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2012			
Impairment provision for obsolete flight equipment spare parts	70,071	(29,663 )	40,408
Impairment provision for receivables	34,745	(10,795 )	23,950
Impairment provision for property, plant and equipment and construction in progress	78,286	(35,064 )	43,222
Derivative financial liabilities	29,201	(8,862 )	20,339
Provision for post-retirement benefits	230,361	(33,781 )	196,580

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	442,664	(118,165	)	324,499	
Depreciation and amortization	(426,481	)	131,736	(294,745	)
Derivative financial assets	(1,091	)	(3,428	)	(4,519
	(427,572	)	128,308	(299,264	)
Net deferred tax assets	15,092		10,143	25,235	

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36. Deferred TAXATION (CONTINUED)

	At the beginning of the year	(Charged)/ credited to income statement	At the end of the year
	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2011			
Impairment provision for obsolete flight equipment spare parts	83,365	(13,294)	70,071
Impairment provision for receivables	69,063	(34,318)	34,745
Impairment provision for property, plant and equipment and construction in progress	128,226	(49,940)	78,286
Provision for return condition checks for aircraft under operating leases	93,740	(93,740)	-
Provision for frequent flyer programs	44,001	(44,001)	-
Derivative financial liabilities	29,526	(325)	29,201
Provision for post-retirement benefits	245,026	(14,665)	230,361
	692,947	(250,283)	442,664
Depreciation and amortization	(652,521)	) 226,040	(426,481)
Derivative financial assets	(17,052)	) 15,961	(1,091)
	(669,573)	) 242,001	(427,572)
Net deferred tax assets	23,374	(8,282)	15,092

As at the balance sheet date, the Group had following balances in respect of which no deferred tax asset has been recognized:

	December 31,		2011	
	Deferred taxation	Temporary differences	Deferred taxation	Temporary differences
	RMB'000	RMB'000	RMB'000	RMB'000
Tax losses carried forward	1,542,223	6,168,893	2,428,143	9,712,570
Other deductible temporary differences	970,616	3,882,464	971,951	3,887,804
Total unrecognized deferred tax assets	2,512,839	10,051,357	3,400,094	13,600,374

In accordance with the PRC tax law, tax losses can be carried forward, for a period of five years, to offset against future taxable income. The Group's tax losses carried forward will expire between 2013 and 2017.

As at December 31, 2012, management carried out an assessment to determine whether future taxable profits will be available to utilize the tax losses and deductible temporary differences. As there are still uncertainties around the Group's future operation results, such as future fuel prices and market competition, management assessed that there are significant uncertainties that future taxable profits will be available and the deferred tax assets arisen from aforementioned tax losses and deductible temporary difference were not recognized.

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**37. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS**

**(a) Defined contribution retirement schemes**

*(i) Pension*

The Group companies participate in defined contribution retirement schemes organized by municipal governments of various provinces in which the Group companies operate. Substantially all of the Group's PRC employees are eligible to participate in the Group companies' retirement schemes. The Group companies are required to make annual contributions to the schemes at rates ranging from 20% to 22% on the employees' salary and allowances subject to certain ceiling as set up by the relevant municipal governments. Employees are required to contribute to the schemes at rates ranging from 7% to 8% of their salaries. For the year ended December 31, 2012, the Group's pension cost charged to the consolidated income statement amounted to RMB871 million (2011: RMB768 million).

*(ii) Medical insurance*

Majority of the Group's PRC employees participate in the medical insurance schemes organized by municipal governments, under which the Group companies and their employees are required to contribute to the schemes approximately 12% and 2%, respectively, of the employee's basic salaries subject to certain ceiling as set up by the relevant municipal governments. For those employees who participate in these schemes, the Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended December 31, 2012, the Group's medical insurance contributions charged to the consolidated income statement amounted to RMB391 million (2011: RMB374 million).

**(b) Post-retirement benefits**

In addition to the above defined contribution retirement schemes, the Group provides retirees with other post-retirement benefits, including transportation subsidies, social function activities subsidies and other welfares. The expected cost of providing these post-retirement benefits is actuarially determined and recognized by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and employees' turnover ratio.

The post-retirement benefit obligations recognized in the balance sheets are as follows:

	December 31,	
	2012	2011
	RMB'000	RMB'000
Present value of funded post- retirement benefit obligations	343,871	350,210
Fair value of plan assets	(89,819 )	(92,450 )
Present value of unfunded post-retirement benefit obligations	5,979,600	5,826,053
Unrecognized actuarial losses	(2,888,323)	(3,140,385)
Post-retirement benefit obligations	3,345,329	2,943,428
Less: current portion (Note 31)	(85,800 )	(83,483 )
Long-term portion	3,259,529	2,859,945

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS (CONTINUED)

## (b) Post-retirement benefits (continued)

Changes in post-retirement benefit obligations are as follows:

	2012	2011
	RMB'000	RMB'000
At January 1	2,943,428	2,617,284
Costs charged in the income statement	581,775	478,502
Payments	(179,874 )	(152,358 )
At December 31	3,345,329	2,943,428

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

	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Current service cost	193,936	170,493	172,889
Interest cost	270,177	224,064	211,412
Actuarial losses recognized	124,184	90,643	101,256
Estimated return on planned asset	(6,522 )	(6,698 )	(6,043 )
Total (Note 9)	581,775	478,502	479,514

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

	2012	2011
Discount rate	4.30-4.35 %	4.20-4.25 %

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Annual rate of increase of per capita benefit payment	3.00-5.00%	3.00-5.00%
Employee turnover rate	3.00-3.25%	3.00-3.25%
Mortality rate	9.83 %	9.83 %
Medical inflation rate	5.00 %	5.00 %

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**38. STAFF HOUSING BENEFITS**

**(a) Staff housing fund**

In accordance with the PRC housing reform regulations, the Group is required to contribute to the State-sponsored housing fund for its employees at rates ranging from 7% to 15% (2011: 7% to 15%) of the specified salary amounts of its PRC employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. For the year ended December 31, 2012, the Group's contributions to the housing funds amounted to RMB607 million (2011: RMB545 million) which has been charged to the consolidated income statement. The staff housing fund payable as at December 31, 2012 is RMB52 million (2011: RMB28 million). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

**(b) Staff housing allowances**

The Group also provides staff housing allowances in cash to eligible employees. The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation or retirement, his or her entitlement would cease and any unpaid entitlement related to past service up to the date of resignation or retirement would be paid. As at December 31, 2012, the present obligation of the provision for employee's staff housing allowances is RMB391 million (2011: RMB390 million).

For the year ended December 31, 2012, the staff housing benefit amounted to RMB171 million (2011: RMB171 million) which has been charged to the consolidated income statement.

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
At December 31				
Interest rate swaps (Note (a))	-	4,279	295,005	267,909
Forward foreign exchange contracts (Note (b))	18,074	86	45,146	65,075
Total	18,074	4,365	340,151	332,984
Less: current portion				
- Interest rate swaps	-	-	(35,813 )	(51,063 )
- Forward foreign exchange contracts	(18,074)	-	-	-
	(18,074)	-	(35,813 )	(51,063 )
Non-current portion	-	4,365	304,338	281,921

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

Notes:

**(a) Interest rate swaps**

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3(a)(ii)). The interest rate swaps entered into by the Group for swapping variable rates, usually referenced to LIBOR, into fixed rates are accounted for as cash flow hedges. Other interest rate swaps are accounted for as fair value hedges. As at December 31, 2012, the notional amount of the outstanding interest rate swap agreements was approximately US\$929 million (2011: US\$695 million). These agreements will expire between 2013 and 2022.

Realized and unrealized gains and losses arising from the valuation of these interest rate swaps have been dealt with in the income statements as follows:

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	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Realized losses (recorded in finance costs)	(99,169 )	(118,016)	(105,043)
Unrealized mark to market losses			
- cash flow hedges (recognized in equity)	(47,128 )	(133,526)	8,103
- fair value hedges (recognized in gain on fair value movements of derivatives financial instruments)	15,755	9,062	7,602
	(130,542)	(242,480)	(89,338 )

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

## (b) Forward foreign exchange contracts

The Group uses forward foreign exchange contracts to reduce the risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3(a)(i)). The Group's forward foreign exchange contracts for selling Japanese Yen and purchasing U.S. dollars at fixed exchange rates are accounted for as cash flow hedges. Other forward foreign exchange contracts are accounted for as fair value hedges. As at December 31, 2012, the notional amount of the outstanding currency forward contracts was approximately US\$ 58 million (2011: US\$46 million), which will expire between 2013 and 2017.

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

	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Realized losses (recorded in finance income)	(12,407 )	(10,406 )	(42,233 )
Unrealized mark to market gains			
- cash flow hedges (recognized in equity)	37,917	1,080	(25,119 )
- fair value hedges (recognized in gain on fair value movements of derivative financial instruments)	-	10,479	25,587
	25,510	1,153	(41,765 )

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 40. FINANCIAL INSTRUMENTS BY CATEGORY

	<u>Assets at fair</u>				<u>Total</u>
	<u>Loans and receivables</u>	<u>value through the profit and loss</u>	<u>Derivatives used for hedging</u>	<u>Available-for-sale</u>	
Assets as per balance sheet	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances at December 31, 2012					
Available-for-sale financial assets	-	-	-	234,690	234,690
Derivative financial instruments	-	-	18,074	-	18,074
Trade receivables	2,962,181	-	-	-	2,962,181
Prepayments and other receivables excluding prepayments	2,544,967	-	-	-	2,544,967
Restricted bank deposits and short-term bank deposits	1,726,251	-	-	-	1,726,251
Cash and cash equivalents	2,511,696	-	-	-	2,511,696
Total	9,745,095	-	18,074	234,690	9,997,859

	<u>Liabilities at fair</u>				<u>Total</u>
	<u>Loans and receivables</u>	<u>value through the profit and loss</u>	<u>Derivatives used for hedging</u>	<u>Other financial liabilities at amortized cost</u>	
Liabilities as per balance sheet	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances at December 31, 2012					
Borrowings	45,736,118	-	-	-	45,736,118
Obligations under finance leases	21,857,978	-	-	-	21,857,978
Derivative financial instruments	-	-	340,151	-	340,151
Trade payables and notes payable	3,075,325	-	-	-	3,075,325
Other payables and accrued expenses	16,256,225	-	-	-	16,256,225
Other long-term liabilities	209,727	-	-	-	209,727

Total	87,135,373	-	340,151	-	87,475,524
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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	<u>Loans and</u>	<u>Assets at fair</u>		<u>Derivatives</u>	<u>Available-</u>	<u>Total</u>
		<u>receivables</u>	<u>value through the</u>			
		<u>profit and</u>	<u>loss</u>	<u>hedging</u>		
Assets as per balance sheet	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances at December 31, 2011						
Available-for-sale financial assets	-	-	-	-	240,380	240,380
Derivative financial instruments	-	-	-	4,365	-	4,365
Trade receivables	2,504,026	-	-	-	-	2,504,026
Prepayments and other receivables excluding prepayments	1,437,444	-	-	-	-	1,437,444
Restricted bank deposits and short-term bank deposits	2,894,287	-	-	-	-	2,894,287
Cash and cash equivalents	3,860,973	-	-	-	-	3,860,973
Total	10,696,730	-	-	4,365	240,380	10,941,475

	<u>Loans and</u>	<u>Liabilities at fair</u>		<u>Derivatives</u>	Other	<u>Total</u>
		<u>receivables</u>	<u>value through the</u>			
		<u>profit and loss</u>	<u>loss</u>	<u>hedging</u>	liabilities at	
Liabilities as per balance sheet	RMB'000	RMB'000	RMB'000	RMB'000	amortized cost	RMB'000
Balances at December 31, 2011						
Borrowings	41,774,593	-	-	-	-	41,774,593
Obligations under finance leases	20,260,822	-	-	-	-	20,260,822
Derivative financial instruments	-	-	-	332,984	-	332,984
Trade payables and notes payable	2,692,624	-	-	-	-	2,692,624
Other payables and accrued expenses	16,267,287	-	-	-	-	16,267,287
Other long-term liabilities	908,406	-	-	-	-	908,406

Total	81,903,732	-	332,984	-	82,236,716
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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 41. SHARE CAPITAL

	December 31,	
	2012	2011
	RMB'000	RMB'000
Registered, issued and fully paid of RMB1.00 each		
A shares listed on the Shanghai Stock Exchange ("A Shares")	7,782,214	7,782,214
— Tradable shares held by CEA Holding with trading moratorium	-	4,831,375
— Tradable shares held by other investors with trading moratorium (Note)	-	288,889
— Tradable shares without trading moratorium	7,782,214	2,661,950
H shares listed on the Stock Exchange of Hong Kong Limited ("H Shares")	3,494,325	3,494,325
— Tradable shares held by CES Global Holding (Hong Kong) Limited with trading moratorium(Note)	-	1,437,375
— Tradable shares without trading moratorium	3,494,325	2,056,950
	11,276,539	11,276,539

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

Note:

During the year ended December 31, 2012, listed A shares of 5,120,264 thousand and listed H shares of 1,437,375 thousand with trading moratorium became listed and tradable.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 42. RESERVES

	Share premium RMB'000	Capital reserve (Note (a)) RMB'000	Hedging reserve (Note 39) RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2011	17,747,785	(720,057 )	(154,492 )	77,019	(12,955,507 )	3,994,748
Unrealized loss on cash flow hedges (Note 39)	-	-	(132,446 )	-	-	(132,446 )
Fair value movements of available for sale investments	-	-	-	486	-	486
Fair value movements of available for sale investments held by associates	-	-	-	(2,701 )	-	(2,701 )
Profit attributable to equity shareholders of the Company	-	-	-	-	4,575,732	4,575,732
Accumulated losses shared by non-controlling interests after capital injection in a subsidiary	426,439	-	-	-	-	426,439
Acquisition of non-controlling interests in subsidiaries	(12,905 )	-	-	-	-	(12,905 )
At December 31, 2011	18,161,319	(720,057 )	(286,938 )	74,804	(8,379,775 )	8,849,353
At January 1, 2012	18,161,319	(720,057 )	(286,938 )	74,804	(8,379,775 )	8,849,353
Unrealized loss on cash flow hedges (Note 39)	-	-	(9,211 )	-	-	(9,211 )
Fair value movements of available for sale investments held by associates	-	-	-	2,188	-	2,188
Fair value movements of available for sale investments	-	-	-	(351 )	-	(351 )
Profit attributable to equity shareholders of the Company	-	-	-	-	2,953,645	2,953,645
Acquisition of non-controlling interests in subsidiaries	(490,151 )	-	-	-	-	(490,151 )

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Others	343,786	-	-	-	-	343,786
At December 31, 2012	18,014,954	(720,057 )	(296,149 )	76,641	(5,426,130 )	11,649,259

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**CHINA EASTERN AIRLINES CORPORATION LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**42. RESERVES (CONTINUED)**

Notes:

**(a) Capital reserve**

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

**(b) Statutory and Discretionary Reserves**

Pursuant to the PRC regulations and the Companies' Articles of Association, each of the Group companies is required to transfer 10% of its profit for the year, after offsetting the accumulated losses, as determined under the PRC Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of the Group company's registered capital. The statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

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

No profit appropriation by the Company to the statutory and discretionary reserve fund was made for the year ended December 31, 2012 (2011: Nil), as the Company was in accumulated loss position as at December 31, 2012.

**43.**

**ASSETS HELD FOR SALE**

In December 2011, the Group entered into an agreement with a third party to dispose certain aircraft and related engines in the forthcoming 12 months in consideration of high maintenance costs of these aircraft. The aircraft and engines with an aggregated carrying value of RMB482 million (after the impairment loss charge) has been classified as assets held for sale at December 31, 2011. An impairment loss charge of approximately RMB612 million was made against these aircraft and engines by reference to the contracted selling price (Note 10) for the year ended December 31, 2011.

The assets held for sale as at December 31, 2011 were disposed in 2012 and the selling price approximates its carrying value.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 44. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

## (a) Cash generated from operations

	Year ended December 31,		
	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Profit before income tax	3,012,404	4,840,701	5,417,812
Adjustments for:			
Depreciation of property, plant and equipment and intangible assets	7,509,252	6,911,989	6,726,651
Gain on disposals of property, plant and equipment	(101,196 )	(35,851 )	15,893
Loss on disposals of investment in associates	-	-	1,013
Gain on disposals of assets-held-for-sale	-	(2,585 )	-
Gain on disposals of investment in subsidiaries	-	(230 )	(45,147 )
Share of results of associates	(103,209 )	(75,435 )	(39,228 )
Share of results of jointly controlled entities	(29,960 )	(31,437 )	(28,154 )
Amortization of lease prepayments	47,658	41,777	31,186
Net foreign exchange gains	(147,836 )	(1,872,369 )	(1,074,796 )
Gain arising from fair value movements of derivative financial instruments	(15,755 )	(49,183 )	(915,804 )
Consumption of flight equipment spare parts	747,268	739,663	601,407
Impairment/(reversal) provision for trade and other receivables	(6,872 )	161,048	1,545
Provision for post-retirement benefits	581,775	478,502	479,514
Provision for return condition checks for aircraft under operating leases	792,770	695,415	586,364
Impairment (reversal)/charges	(13,467 )	638,316	405,391
Interest income	(200,765 )	(151,633 )	(80,588 )
Interest expense	1,697,474	1,462,727	1,501,900
Operating profit before working capital changes	13,769,541	13,751,415	13,584,959



## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 44. NOTE TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

## (a) Cash generated from operations (continued)

	Year ended December 31,		
	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Changes in working capital			
Flight equipment spare parts	(1,176,365 )	(1,023,437 )	(776,736 )
Trade receivables	(427,908 )	104,977	(202,667 )
Prepayments and other receivables	(99,757 )	1,613,610	1,830,045
Restricted bank deposits and short-term bank deposits	1,168,036	(945,157 )	(1,492,680 )
Sales in advance of carriage	(103,222 )	619,794	846,502
Trade payables and notes payables	387,615	(1,601,517 )	(3,418,055 )
Other payables and accrued expenses	179,263	1,680,679	292,530
Other long-term liabilities	(383,759 )	86,728	569,577
Provision for return condition checks for aircraft under operating leases	(293,134 )	(316,686 )	(305,550 )
Staff housing allowances	40,361	(144,272 )	(166,871 )
Post-retirement benefit obligations	(179,873 )	(152,358 )	(131,581 )
Operating lease deposits	(57,963 )	107,643	110,366
	(946,706 )	30,004	(2,845,120 )
Cash generated from operations	12,822,835	13,781,419	10,739,839

## (b) Non-cash transactions

	Year ended December 31,		
	2012	2011	2010
	RMB'000	RMB'000	RMB'000
Financing activities not affecting cash:			
Issuances of new shares for acquisition of Shanghai Airlines	-	-	9,118,433
Finance lease obligations incurred for acquisition of aircraft	5,712,958	4,181,145	1,455,152
	5,712,958	4,181,145	10,573,585

**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****45.****COMMITMENTS****(a) Capital commitments**

The Group had the following capital commitments:

	December 31,	
	2012	2011
	RMB'000	RMB'000
Authorized and contracted for:		
- Aircraft, engines and flight equipment (Note)	172,092,301	108,297,645
- Other property, plant and equipment	1,125,000	568,565
	173,217,301	108,866,210
Authorized but not contracted for:		
- Other property, plant and equipment	3,132,616	3,193,495
- Investment	124,800	-
	3,257,416	3,193,495
	176,474,717	112,059,705

Note:

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

	December 31,	
	2012	2011
	RMB'000	RMB'000
Within one year	26,320,538	17,934,594
In the second year	44,435,072	22,248,728
In the third year	51,730,954	29,884,980
In the fourth year	28,830,539	31,362,018

Over four years	20,775,198	6,867,325
	172,092,301	108,297,645

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****45. COMMITMENTS (CONTIUNED)****(b) Operating lease commitments**

As at the balance sheet date, the Group had commitments under operating leases to pay future minimum lease rentals as follows:

	December 31,	
	2012	2011
	RMB'000	RMB'000
Aircraft, engines and flight equipment		
Within one year	3,833,550	3,750,437
In the second year	3,504,777	3,545,992
In the third to fifth year inclusive	7,900,135	8,256,751
After the fifth year	6,438,693	5,368,641
	21,677,155	20,921,821
Land and buildings		
Within one year	240,084	241,693
In the second year	176,726	212,170
In the third to fifth year inclusive	413,229	335,454
After the fifth year	2,072,525	2,767,760
	2,902,564	3,557,077
	24,579,719	24,478,898

**(c) Investment commitments**

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 agreed to establish Jetstar Hong Kong. According to the Shareholders' Agreement, the share capital of Jetstar Hong Kong was amounted to USD198 million and will be contributed equally by EAO and JIGH. As at December 31, 2012, the Group had not yet completed the investment.



**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****46. RELATED PARTY TRANSACTIONS**

The Group is controlled by CEA Holding, which directly owns 42.84% of the Company's shares as at December 31, 2012 (2011: 42.84%). In addition, through CES Global Holding (Hong Kong) Limited, a wholly owned subsidiary of CEA Holding, CEA Holding owns 17.09% of the Company's shares as at December 31, 2012 (2011: 17.09%).

**(a) Nature of related parties that do not control or controlled by the Group:**

<b>Name of related party</b>	<b>Relationship with the Group</b>
Eastern Finance	Controlled by the same parent company
Kunming Dongmei Aviation Travel Co., Ltd. ("Kunming Dongmei")	Controlled by the same parent company
Dongmei Travel	Associate of the Company
Xian Dongmei Aviation Travel Co., Ltd. ("Xian Dongmei")	Controlled by the same parent company
Eastern Import & Export	Associate of the Company
Wheels & Brakes	Jointly controlled entity of the Company
Technologies Aerospace	Jointly controlled entity of the Company
Shanghai P&W	Associate of the Company
Shanghai Eastern Air Catering Co., Ltd. ("Shanghai Catering")	Controlled by the same parent company
Eastern Advertising	Associate of the Company
CEA Development Co. Ltd. ("CEA Development")	Controlled by the same parent company
Shanghai Eastern Aviation Equipment Manufacturing Corporation ("Eastern Aviation")	Controlled by the same parent company
Shanghai Hute Aviation Tech. Co. Ltd. ("Shanghai Hute")	Controlled by the same parent company
Shanghai Eastern International Aviation Travel Co., Ltd. ("Eastern Aviation Travel")	Controlled by the same parent company
Eastern China Kaiya System Integration ("China Kaiya")	Controlled by the same parent company
CEA Northwest Co., Ltd. ("CEA Northwest")	Controlled by the same parent company
Shanghai Aviation Import & Export Co., Ltd. ("Shanghai Import & Export")	Associate of the Company
Shanghai Eastern Airlines Investment Co., Ltd. ("Eastern investment")	Associate of the Company
Eastern Airlines Travel Investment(Group) Co., Ltd. ("Eastern Travel")	Associate of the Company

## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 46. RELATED PARTY TRANSACTIONS (CONTIUNED)

## (b) Related party transactions

Nature of transaction	Related party	Income/ (expense or payments)		
		2012 RMB'000	2011 RMB'000	2010 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding:				
Interest income on deposits at an average rate of 0.39% per annum (2011: 0.50% per annum)	Eastern Finance	45,996	46,242	17,658
Interest expense on loans at average rate of 5.49% per annum (2011: 5.39% per annum)	Eastern Finance	(87,457 )	(51,117 )	(61,162 )
	CEA Holding	-	(476 )	(3,229 )
Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold **	Kunming Dongmei	(4,858 )	(8,285 )	(5,173 )
	Dongmei Travel	(12,438 )	(11,218 )	(12,532 )
	Xian Dongmei	(2,540 )	(858 )	(1,092 )
Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment and repairs for aircraft and engines**	Eastern Import & Export	(78,756 )	(57,682 )	(59,636 )
Repairs and maintenance expense for aircraft and engines **	Wheels & Brakes	(58,483 )	(52,098 )	(53,949 )
	Technologies Aerospace	(194,528 )	(169,698 )	(176,392 )
	Shanghai P&W	(2,009,050)	(1,170,567)	(831,013)

Supply of food and beverages\*

Shanghai Catering  
and its subsidiaries (783,384 ) (737,827 ) (544,487)

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

## (b) Related party transactions (continued)

Nature of transaction	Related party	Income/ (expense or payments)		
		2012 RMB'000	2011 RMB'000	2010 RMB'000
Advertising expense **	Eastern Advertising	(38,846 )	(18,202 )	(20,209 )
Media royalty fee **	Eastern Advertising	36,030	12,900	12,000
Automobile maintenance service, aircraft maintenance, providing transportation automobile and other products**	CEA Development	(121,854)	(102,614)	(39,799 )
Equipment maintenance fee **	Eastern Aviation	-	-	(2,974 )
	Shanghai Hute	(47,205 )	(39,662 )	(39,958 )
Land and building rental	CEA Holding	(66,763 )	(55,140 )	(55,140 )
Acquisition of non-controlling interests in subsidiaries	CEA Holding	(83,952 )	(47,211 )	-
	Shanghai Import & Export	(20,694 )	-	-
Acquisition of non-controlling interests in associates	Eastern Travel	(13,851 )	-	-
Acquisition of cargo business	Great Wall Airlines	-	(357,261)	-
Disposal of investment in subsidiaries	Shanghai Catering	-	-	24,064
	Eastern Import & Export	-	-	57,753
	Eastern Advertising	-	-	27,264
Disposal of investment in an associate***	Eastern Investment	93,680	-	-

- \* The Group's pricing policies on products purchased from related parties are based on the mutually agreed prices between contract parties.
  
- \*\* The Group's pricing policies on services provided by and to related parties are based on the mutually agreed prices between contract parties.
  
- \*\*\* The Company's pricing policies on transfer of equity or dispose of investment are based on the valuation prices.

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## CHINA EASTERN AIRLINES CORPORATION LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

## (c) Balances with related companies

*(i) Amounts due from related companies*

Nature	Company	December 31,	
		2012	2011
		RMB'000	RMB'000
Trade receivables	Kunming Dongmei	4,213	211
	Eastern Aviation Travel	-	11,012
	Others	4,308	2,340
		8,521	13,563
Prepayments and other receivable	Eastern Import & Export	370,125	218,753
	China Kaiya	19,694	16,189
	Others	13,025	14,923
		402,844	249,865

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

*(ii) Amounts due to related companies*

Nature	Company	December 31,	
		2012	2011
		RMB'000	RMB'000
Trade payables and notes payable	Eastern Import & Export	1,210,603	747,179
	Shanghai P&W	467,885	278,778
	Shanghai Catering	134,696	120,260
	Technologies Aerospace	63,136	28,703
	Others	73,324	41,392
		1,949,644	1,216,312

Other payables and accrued expenses	CEA Holding	73,020	87,115
	Eastern Import & Export	96,861	1,244
	Others	25,003	8,231
		194,884	96,590

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

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**CHINA EASTERN AIRLINES CORPORATION LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****46. RELATED PARTY TRANSACTIONS (CONTINUED)****(c) Balances with related companies (continued)****(iii) Short-term deposits and borrowings with an associate and CEA Holding**

	Average interest rate		December 31,	
	2012	2011	2012	2011
			RMB'000	RMB'000
Short-term deposits (included in restricted bank deposits and short-term bank deposits)				
“Eastern Finance”	0.39 %	0.50 %	1,451,526	2,204,510
Short-term loans (included in Borrowings)				
“Eastern Finance”	4.98 %	5.02 %	675,426	176,425
Long-term loans (included in Borrowings)				
“Eastern Finance”	5.64 %	5.64 %	165,000	135,000

**(d) Guarantees by holding company**

As at December 31, 2012, bank loans of the Group with an aggregate amount of RMB95 million (2011: RMB228 million) were guaranteed by CEA Holding (Note 33).

**47. ULTIMATE HOLDING COMPANY**

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

