

CHINA EASTERN AIRLINES CORP LTD
Form 20-F
June 24, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 20-F

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

OR

o ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

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

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

Commission file number 1-14550

(Exact Name of Registrant as Specified in Its Charter)

China Eastern Airlines Corporation Limited
(Translation of Registrant's Name Into English)

The People's Republic of China
(Jurisdiction of Incorporation or Organization)

Kong Gang San Lu, Number 88,

Shanghai, 200335
People's Republic of China
Tel: (8621) 6268-6268
Fax: (8621) 6268-6116

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

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

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

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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, 2009, 6,087,375,000 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.

Indicate by check mark if the registrant is a well-known seasoned issuers, 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 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
o

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 legal tender currency of the United States of America, or the United States or the U.S.; the term “Renminbi” or “RMB” refers to Renminbi, the legal tender currency of The People’s Republic of China, or China or the PRC; and the term “Hong Kong dollars” or “HK\$” refers to Hong Kong dollars, the legal tender currency of the Hong Kong Special Administrative Region of China, or Hong Kong.

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

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

See “Item 3. Key Information - Exchange Rate Information” for details of exchange rates.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

- our fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;
 - the planned expansion of our cargo operations;
- the impact of changes in the policies of the Civil Aviation Administration of China, or the CAAC, regarding route rights;
 - the impact of the CAAC policies regarding the restructuring of the airline industry in China;
- certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;
 - our expansion plans, including 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”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would”, and similar expressions, as they relate to our Company management, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements are, by their nature, subject to inherent risks and uncertainties, some of which are beyond our control, and are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement, including, without limitation:

- any changes in the regulatory policies of the CAAC;
- the effects of competition on the demand for and price of our services;
- the availability of qualified flight personnel and airport facilities;
- any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of our borrowings are denominated;
- the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;
 - changes in political, economic, legal and social conditions in China;
 - the fluctuation of interest rates;
- our ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and
 - general economic conditions in markets where our Company operates.

GLOSSARY OF TECHNICAL TERMS

Capacity measurements

ATK (available tonne-kilometers) the number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown

ASK (available seat kilometers) the number of seats made available for sale multiplied by the distance flown

AFTK (available freight tonne-kilometers) the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the distance flown

Traffic measurements

revenue passenger-kilometers or RPK the number of passengers carried multiplied by the distance flown

revenue freight tonne-kilometers or RFTK cargo and mail load in tonnes multiplied by the distance flown

revenue passenger tonne-kilometers or RPTK passenger load in tonnes multiplied by the distance flown

revenue tonne-kilometers or RTK load (passenger and cargo) in tonnes multiplied by the distance flown

Load factors

overall load factor tonne-kilometers expressed as a percentage of ATK

passenger load factor passenger-kilometers expressed as a percentage of ASK

break-even load factor the load factor required to equate traffic revenue with our operating costs assuming that our total operating surplus is attributable to scheduled traffic operations

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

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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, 2007, 2008 and 2009 and the selected financial data from the balance sheets as of December 31, 2008 and 2009 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, 2007, 2008 and 2009 and the consolidated balance sheets as of December 31, 2008 and 2009 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 the IFRS and no longer provide a reconciliation between IFRS and U.S. GAAP.

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

| | Year Ended December 31, | | | | |
|--|---|-------------|-------------|-------------|-------------|
| | 2005 RMB | 2006 RMB | 2007 RMB | 2008 RMB | 2009 RMB |
| | (in millions, except per share or per ADS data) | | | | |
| Consolidated Income Statements Data: | | | | | |
| IFRS: | | | | | |
| Revenues | 27,380 | 37,557 | 42,534 | 41,073 | 38,990 |
| Other operating income and gains | 245 | 424 | 488 | 672 | 1,288 |
| Operating expenses | (27,562) | (40,695) | (42,894) | (56,828) | (38,456) |
| Operating profit / (loss) | 63 | (2,714) | 128 | (15,083) | 1,821 |
| Finance income / (costs), net | (578) | (757) | 162 | (267) | (1,549) |
| Profit / (loss) before income tax | (528) | (3,338) | 378 | (15,256) | 249 |
| Profit / (loss) for the year attributable to equity holders of the Company | (418) | (3,035) | 379 | (15,269) | 169 |
| Basic and fully diluted earnings / (loss) per share(1) | (0.09) | (0.62) | 0.08 | (3.14) | 0.03 |
| Basic and fully diluted earnings / (loss) per ADS | (8.58) | (62.35) | (7.78) | (313.72) | 2.63 |

| | Year Ended December 31, | | | | |
|----------------------------|-------------------------|-------------|-------------|-------------|-------------|
| | 2005 RMB | 2006 RMB | 2007 RMB | 2008 RMB | 2009 RMB |
| (in millions) | | | | | |
| Balance Sheet Data: | | | | | |
| IFRS: | | | | | |
| Cash and cash equivalents | 1,864 | 1,987 | 1,655 | 3,451 | 1,735 |
| Net current liabilities | (25,548) | (24,588) | (26,098) | (43,458) | (28,648) |
| Non-current assets | 52,106 | 51,725 | 57,949 | 62,652 | 64,988 |

| | Year Ended December 31, | | | | |
|--|-------------------------|-------------|-------------|-------------|-------------|
| | 2005 RMB | 2006 RMB | 2007 RMB | 2008 RMB | 2009 RMB |
| (in millions) | | | | | |
| Long term borrowing, including current portion | (12,659) | (14,932) | (14,675) | (15,628) | (16,928) |
| Obligations under finance lease, including current portion | (10,588) | (11,949) | (16,452) | (20,809) | (19,370) |
| Total share capital and reserves | 5,561 | 2,534 | 2,361 | (13,097) | 1,235 |

(1) The calculation of earnings/(loss) per share is based on the consolidated profit/(loss) attributable to shareholders and the weighted average number of shares of 6,436,828,000 in issue during the year.

Exchange Rate Information

We present our historical consolidated financial statements in Renminbi. For the convenience of the reader, certain pricing information is presented in U.S. dollars and certain contractual amounts that are in Renminbi or Hong Kong dollar amounts include a U.S. dollar equivalent at the exchange rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009 of RMB6.8259=US\$1.00 and HK\$7.7536=US\$1.00. 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 exchange rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.8268 = US\$1.00 and HK\$7.7919=US\$1.00 on June 4, 2010. The following table sets forth information concerning exchange rates between the RMB, Hong Kong dollar and the U.S. dollar for the periods indicated based on the exchange rate in New York City for cable transfers of in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

| | RMB per US\$1.00 | | HK\$ per US\$1.00 | |
|---------------|------------------|--------|-------------------|--------|
| | High | Low | High | Low |
| November 2009 | 6.8300 | 6.8255 | 7.7501 | 7.7495 |
| December 2009 | 6.8299 | 6.8244 | 7.7572 | 7.7495 |
| January 2010 | 6.8295 | 6.8258 | 7.7752 | 7.7539 |
| February 2010 | 6.8370 | 6.8258 | 7.7716 | 7.7619 |
| March 2010 | 6.8254 | 6.8270 | 7.7648 | 7.7574 |
| April 2010 | 6.8275 | 6.8229 | 7.7675 | 7.7565 |
| May 2010 | 6.8310 | 6.8245 | 7.8030 | 7.7626 |

| | | | | |
|--------------------------------|--------|--------|--------|--------|
| June 2010 (up to June 4, 2010) | 6.8296 | 6.8268 | 7.7935 | 7.7906 |
|--------------------------------|--------|--------|--------|--------|

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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 2005, 2006, 2007, 2008 and 2009, calculated by averaging the exchange rates on the last day of each month during the relevant year:

| | RMB per US\$1.00 | HK\$ per US\$1.00 |
|------|---------------------|----------------------|
| 2005 | 8.1826 | 7.7755 |
| 2006 | 7.9579 | 7.7685 |
| 2007 | 7.5806 | 7.8008 |
| 2008 | 6.9193 | 7.7814 |
| 2009 | 6.8307 | 7.7513 |

Selected Operating Data

The following table sets forth certain operating data of our Company for the five years ended December 31, 2009, 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, | | | | |
|--|-------------------------|----------|----------|----------|----------|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| Selected Airline Operating Data: | | | | | |
| Capacity: | | | | | |
| ATK (millions) | 8,751.5 | 11,065.6 | 12,085.9 | 11,642.2 | 12,505.5 |
| ASK (millions) | 52,427.9 | 70,468.3 | 77,717.2 | 75,964.3 | 84,456.4 |
| AFTK (millions) | 4,033.0 | 4,723.4 | 5,091.3 | 4,805.4 | 4,904.5 |
| Traffic: | | | | | |
| Revenue passenger-kilometers (millions) | 36,380.6 | 50,271.9 | 57,182.6 | 53,785.3 | 60,942.1 |
| Revenue tonne-kilometers (millions) | 5,395.2 | 6,931.0 | 7,713.9 | 7,219.0 | 7,908.7 |
| Revenue passenger tonne-kilometers (millions) | 3,243.7 | 4,487.0 | 5,099.8 | 4,798.9 | 5,434.5 |
| Revenue freight tonne-kilometers (millions) | 2,151.5 | 2,444.0 | 2,614.1 | 2,420.1 | 2,474.2 |
| Kilometers flown (millions) | 287.7 | 434.6 | 478.1 | 467.0 | 515.2 |
| Hours flown (thousands) | 467.8 | 678.3 | 756.0 | 755.2 | 838.3 |
| Number of passengers carried (thousands) | 24,290.5 | 35,039.7 | 39,161.4 | 37,231.5 | 44,043.0 |
| Weight of cargo carried (millions of kilograms) | 775.5 | 893.2 | 940.1 | 889.5 | 943.9 |
| | Year Ended December 31, | | | | |
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| Average distance flown (kilometers per passenger) | 1,497.7 | 1,434.7 | 1,460.2 | 1,444.6 | 1,383.7 |
| Load Factor: | | | | | |
| Overall load factor (%) | 61.7 | 62.6 | 63.8 | 62.0 | 63.2 |
| Passenger load factor (%) | 69.4 | 71.3 | 73.6 | 70.8 | 72.2 |
| Break-even load factor (based on ATK) (%) | 66.0 | 71.1 | 67.7 | 90.7 | 66.0 |
| Yield and Cost Statistics (RMB): | | | | | |
| Passenger yield (passenger revenue/passenger-kilometers) | 0.57 | 0.61 | 0.62 | 0.62 | 0.54 |
| | 2.31 | 2.30 | 2.10 | 2.21 | 1.67 |

Cargo yield (cargo revenue/cargo
tonne-kilometers)

| | | | | | |
|---|------|------|------|------|------|
| Average yield (passenger and cargo revenue/ tonne- kilometers) | 4.79 | 5.20 | 5.27 | 5.38 | 4.67 |
| Unit cost (operating expenses/ATK) | 3.16 | 3.70 | 3.57 | 4.88 | 3.08 |

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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 and adversely affect our financial condition and results of operations.

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

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

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

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

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the domestic and international economies, political conditions and the supply and demand of currency. On July 21, 2005, the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an appreciation in the value of the Renminbi

against the U.S. dollar of approximately 6.9% in 2007 and 7.0% in 2008. There was no material appreciation of the value of Renminbi against the U.S. dollar in 2009. In May 2007, the PRC Government widened the daily trading band of the Renminbi against a basket of certain foreign currencies from 0.3% to 0.5%. It is possible that the PRC Government could adopt a more flexible currency policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency.

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We operate our business in many countries and territories. We generate revenue in different currencies, and our foreign currency liabilities at the end of the period 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. Where fluctuations in exchange rates are significant, the exchange losses resulting from the translation of foreign currency denominated liabilities would be greater and would affect the profitability and development of our Company.

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. To the extent that there are any withdrawals of, or changes in, our preferential tax treatment, 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.

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; and
- aircraft registration and aircraft airworthiness certification.

As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

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

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

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

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

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

The current CAAC policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a Chinese airline company. As of December 31, 2009, approximately 30.99% of our total outstanding shares were held by non-Chinese, Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). As a result, our access to international equity capital markets may be limited. This restriction may also limit the opportunities available to our Company to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. We cannot assure you that the CAAC will increase these limits in the near future or at all.

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

The availability and cost of aviation 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. These and other factors that impact the global supply and demand for aviation fuel may affect our financial performance due to its sensitivity to fuel prices.

Fuel costs constitute a significant portion of our operating costs and, in 2009, accounted for approximately 31.9% of our operating expenses. From 2008 to 2009, our fuel expenses decreased by 33.7%, partially as a result of a decline in weighted average domestic and international fuel prices. From 2008 to 2009, the weighted average fuel prices that we paid decreased by approximately 38.6%. However, domestic and international fuel prices increased at the end of 2009 through the first quarter of 2010 before declining in the second quarter of 2010 and we cannot assure you that fuel prices will not further increase in the future. Due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased fuel costs we may encounter in the future.

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

The global recession could continue to weaken demand for air travel.

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the domestic and global economies. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of the 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. Demand for air travel could continue to fall if the global economic recession continues, and overall demand may fall much lower than our ability to reduce capacity. Although the PRC government instituted certain initiatives in 2008 and 2009 in response to the slowdown in the PRC economy, the rapid increase in liquidity in the market as a result of fiscal stimulus measures resulted in the PRC government recently implementing a number of measures to control such increase, including raising interest rates, in the second quarter of 2010. These factors and any further declines in economic activity may lead us to further reduce domestic or international capacity, which would have a material adverse effect on our revenues, results of operations and liquidity.

In addition, the airline industry is characterized by a high degree of operating leverage. Due to high fixed costs, including payments made in connection with aircraft leases, 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 utilize fuel hedging arrangements which may result in losses.

As a form of protection against potential spikes in fuel price, we from time to time hedge a portion of our future fuel requirements through various financial derivative instruments linked to certain fuel commodities to lock in fuel costs within a hedged price range. For the years ended December 31 2008 and 2009, we hedged 41.6% and 52.6% of our annual fuel consumption, respectively. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant declines in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. In addition, where we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs.

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

We have a substantial amount of debt and other obligations, and will continue to have a substantial amount of debt and other obligations in the future. As of December 31, 2009, our total liabilities were RMB70,175 million and our accumulated losses were RMB17,913 million. As of the same date, our current liabilities exceeded our current assets by RMB28,648 million. Our total bank borrowings amounted to RMB25,335 million and our short-term bank loans outstanding totaled RMB8,407 million as of December 31, 2009. In addition, we added a total of 21 aircraft to our fleet, by purchase or finance lease (excluding operating lease), including ten A320 aircraft, seven B737-700 aircraft and four B737-800 aircraft in 2009. See the section headed “Item 4. Information on the Company — Property, Plant and Equipment — Fleet.” Our substantial indebtedness and other obligations could materially adversely affect us in our business and operations, including requiring us to dedicate additional cash flow from operations to the payment of principal and interest on indebtedness, 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 affecting our ability to satisfy payment of our existing indebtedness and other obligations under our indebtedness. In addition, as a result of our significant amount of debt, a decrease in our revenues could result in a disproportionately greater percentage decrease in our earnings.

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-funded 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 and our credit rating, as well as by prevailing economic conditions and the cost of financing in general. If we are unable to obtain adequate financing for our capital requirements, our liquidity and operations would be materially and adversely affected.

We 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, 2009, we had total credit facilities of RMB50.9 billion from certain banks, and expect to roll over these bank facilities in future years if required. In addition, we generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained, sometimes with the assistance of the CAAC, guarantees from reputable Chinese banks in respect of payments under our foreign loan and capital lease obligations. Although we have secured financing for our aircraft scheduled for delivery in 2010, we are still in the process of obtaining financing for some of aircraft we have scheduled for delivery in future years. 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 the credit facilities or guarantees from reputable 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. 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 were unable to obtain financing for a significant portion of our capital requirements, our ability to expand our operations, purchase new aircraft, pursue business opportunities we believe to be desirable, withstand a continuing or future downturn in our business, or respond to increased competition or changing economic conditions may be impaired. We have and in the future will likely continue to have substantial debts. As a result, the interest cost associated with these debts might impair our future profitability and cause our earnings to be subject to a higher degree of volatility.

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

Most of the major airline companies in China are currently majority-owned either by the central government of China or by provincial or municipal governments in China. CEA Holding currently holds 50.42% of our Company's equity interests on behalf of the PRC Government. As a result, CEA Holding could potentially elect the majority of our Board of Directors and otherwise be able to control us. CEA Holding also has sufficient voting control to effect transactions without the concurrence of our minority shareholders. The interests of the PRC Government as the ultimate controlling person of our Company and most of the other major Chinese airlines could conflict with the interests of our minority shareholders. Although the CAAC currently has a policy of equal treatment of all Chinese airlines, we cannot assure you that the CAAC will not favor other Chinese airlines over our Company.

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

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

- the management of our Company.

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. We renew our insurance policies on a yearly basis and are currently insured through November 30, 2010. 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, our financial condition and results of operations may be materially and adversely affected.

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

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 regular direct flights per week in 2009 and 2010. China and Taiwan agreed to increase flight destinations for air links between the two sides in mainland China to 31 cities in 2010, while flight destinations in Taiwan continue to include eight cities. The two sides also agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. While we have currently been allocated 42 of the approximately 270 regular direct flights per week and are 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 engage in related party transactions, which may result in conflict of interests.

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

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

We may from time to time expand our business through acquisitions of airline companies or airline-related businesses.

For example, we acquired certain selected assets and liabilities relating to the aviation businesses of CEA Northwest and CEA Yunnan in 2005 as well as equity interests in CEA Wuhan in 2006. In addition, we entered into an agreement with Shanghai Airlines Co., Ltd. (“Shanghai Airlines”) on July 10, 2009 to issue a maximum of 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. 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. We are devoting significant resources to the integration of our operations in order to achieve the anticipated synergies and benefits of the absorption. See “Item 4. Information on the Company” for details.

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

- difficulty with integrating the assets, operations and technologies of the acquired airline companies or airline-related businesses, including their employees, corporate cultures, managerial systems, processes and procedures and management information systems and services;
- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airline companies or airline-related businesses;
 - difficulty with exercising control and supervision over the newly acquired operations; and
- increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airline companies or airline-related businesses.

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 successful integration of Shanghai Airlines into our Company depends significantly on integrating the pre-absorption Shanghai Airlines employee groups with our employee groups and on maintaining productive employee relations. In the event that we are unable to efficiently and effectively integrate newly acquired companies or airline-related businesses into our Company, we may be unable to achieve the objectives or anticipated synergies of such acquisitions and such acquisitions may adversely impact the operations and financial results of our existing businesses.

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

We are required under relevant United States securities rules and regulations to disclose in the reports that we file or submit under the Exchange Act to the United States Securities and Exchange Commission, including our annual report on Form 20-F, a management report assessing the effectiveness of our internal control over financial reporting as of the end of the fiscal year. Our registered public accounting firm is also required to provide an attestation report on the effectiveness of our internal controls over financial reporting. Our management concluded that our internal controls over financial reporting was effective as of December 31, 2009. 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.

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

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

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 guarantee 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 could have an adverse impact on our business operations, profitability, reputation and customer services.

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

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

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

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

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

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

In accordance with the relevant accounting standards, we are required to test certain of our intangible assets for impairment on an annual basis, or more frequently if conditions indicate that an impairment may have occurred. In addition, we are required to test certain of our tangible assets for impairment if conditions indicate that an impairment may have occurred. In determining the recoverable amounts of the related assets, our management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values. After assessing the fair value less costs to sell as of the balance sheet date which was primarily determined by reference to estimated market value, we made an additional impairment loss of RMB35 million against certain aircraft and related flight equipment which have been classified as “non-current assets held for sale”.

We may recognize additional impairments in the future due to, among other factors, extreme fuel price volatility, tight credit markets, a decline in the fair value of certain tangible or intangible assets, unfavorable trends in historical or forecasted operating or cash flow losses and the uncertain economic environment, as well as other uncertainties. We cannot guarantee that a material impairment charge of tangible or intangible assets will not occur in any future period. The value of our aircraft could be adversely affected in future periods by changes in the market for these aircraft. An impairment charge could have a material adverse effect on our financial position and result of operations in the period of recognition.

Item 4. Information on the Company

A. History and Development of the Company

Our registered office is located at 66 Airport Street, Pudong International Airport, Shanghai, China, 201202. Our principal executive office is located at 2550 Hongqiao Road, Hongqiao International Airport, Shanghai, China, 200335, and our mailing address is Kong Gang San Lu, Number 88, Shanghai, 200335, China. The telephone number of our principal executive office is (86-21) 6268-6268 and the fax number for the Board Secretariat’s office is (86-21) 6268-6116. We currently do not have an agent for service of process in the United States.

Our Company was established on April 14, 1995 under the laws of China as a company limited by shares in connection with the restructuring of our predecessor and our initial public offering. Our predecessor was one of the six original airlines established in 1988 as part of the decentralization of the airline industry in China undertaken in connection with China's overall economic reform efforts. Prior to 1988, the CAAC was responsible for all aspects of civil aviation in China, including the regulation and operation of China's airlines and airports. In connection with our initial public offering, our predecessor was restructured into two separate legal entities, our Company and EA Group. According to the restructuring arrangement, by operation of law, our Company succeeded to substantially all of the assets and liabilities relating to the airline business of our predecessor. EA Group succeeded to our predecessor's assets and liabilities that do not directly relate to the airline operations and do not compete with our businesses. Assets transferred to EA Group included our predecessor's equity interests in companies engaged in import and export, real estate, advertising, in-flight catering, tourism and certain other businesses. In connection with the restructuring, we entered into various agreements with EA Group and its subsidiaries for the provision of certain services to our Company. CEA Holding assumed the rights and liabilities of EA Group under these agreements after it was formed by merging EA Group, Yunnan Airlines Company and China Northwest Airlines Company in October 2002. See "Item 7. Major Shareholders and Related Party Transactions" for more details. In 2009, our Company's total revenue from core operations accounted for approximately 94.4% of CEA Holding's total revenue. The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of May 20, 2010:

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

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

In August 2002, our Company, jointly with Wuhan Municipal State-owned Assets Management Committee Office and two other independent third parties, established China Eastern Airlines Wuhan Limited, or CEA Wuhan, in which our Company held a 40% equity interest. CEA Wuhan's operating results were consolidated with ours from January 2006, when we obtained control of CEA Wuhan. In March 2006, we completed our acquisition of a 38% equity interest and a 18% equity interest in CEA Wuhan from Wuhan Municipal State-owned Assets Supervision and Administration Committee and Shanghai Junyao Aviation Investment Company Limited, respectively, for an aggregate consideration of approximately RMB418 million. As a result, our equity interest in CEA Wuhan has increased to 96%. CEA Wuhan primarily serves the market in Central China.

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

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

On March 14, 2006, we entered into an official sponsorship agreement with the Bureau of 2010 Expo Shanghai (the "Bureau"), which designated our Company as the exclusive airline passenger carrier in China to sponsor the 2010 Shanghai Expo. Pursuant to the agreement, we are 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 are also able to enjoy the privileges of being a market development participant of the World Expo. We believe that, as the designated partner airline for World Expo 2010 Shanghai and with our core operations in Shanghai, one of China's principal air transportation hubs, we are well-positioned to enhance our brand image and overall operations.

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

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

On July 10, 2009, we entered into an absorption agreement with Shanghai Airlines in relation to the proposed acquisition of Shanghai Airlines. The proposed acquisition was approved in a shareholders meeting of our Company on October 9, 2009. On December 30, 2009, we received approval of our proposed acquisition of Shanghai Airlines from the 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, and as a result, Shanghai Airlines is now a wholly-owned subsidiary of our Company. As two airline carriers both 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. For information regarding the carrying amount and fair value of assets and liabilities of Shanghai Airlines as of January 28, 2010, see “Item 8B. Significant Post Financial Statement Events.”

The table below sets forth details of our operating fleet since 2006 and planned additions for the years 2010 and 2011:

| | No. of Aircraft Owned and under Finance Leases | | No. of Aircraft Owned and under Operating Leases | | No. of Aircraft Owned and under Finance Leases | | No. of Aircraft Owned and under Operating Leases | | Planned Additions | |
|--------------|--|------------|--|------------|--|------------|--|-----------|-------------------|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | | | | |
| A340-600 | 5 | 5 | 5 | 5 | — | — | — | — | — | — |
| A340-300 | 5 | 5 | 5 | 5 | — | — | — | — | — | — |
| A330-300 | — | 5 | 5 | 7 | 7 | 8 | 7 | — | — | — |
| A330-200R | — | 1 | 1 | 3 | 3 | 2 | 3 | — | — | 3 |
| A300-600 | 9 | 8 | 8 | 8 | — | 7 | — | — | — | — |
| A321 | 6 | 10 | 10 | 15 | — | 15 | — | — | — | — |
| A320 | 37 | 39 | 39 | 57 | 26 | 26 | 26 | 14 | 11 | — |
| A319 | 3 | 5 | 5 | 5 | 10 | 5 | 10 | — | — | — |
| MD-90 | 9 | 9 | 9 | 9 | — | 9 | — | — | — | — |
| B737-800 | — | 7 | 7 | 4 | 7 | 4 | 9 | 2 | 1 | — |
| B737-700 | 14 | 16 | 16 | 24 | 15 | 15 | 15 | 4 | 1 | — |
| B737-300 | 13 | 16 | 16 | 16 | 7 | 16 | 1 | — | — | — |
| B767-300 | 3 | 3 | 3 | 3 | — | 3 | — | — | — | — |
| EMB145 | 7 | 10 | 10 | 10 | — | 10 | — | — | — | — |
| CRJ-200 | 5 | 5 | 5 | 5 | — | 5 | — | — | — | — |
| A300F | 1 | 2 | 2 | 3 | — | 3 | — | — | — | — |
| B747F | 1 | 2 | 2 | 2 | — | 2 | — | — | — | — |
| MD-11F | 6 | 6 | — | 6 | — | 6 | — | 6 | — | — |
| Total | 205 | 223 | 159 | 180 | 81 | 180 | 77 | 20 | 16 | |

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 2009, and is the primary air carrier serving Shanghai, China’s eastern gateway and largest city.

As of December 31, 2009, we accounted for approximately 18.6% of the total commercial air traffic (as measured in revenue tonne-kilometers, or RTKs) handled by Chinese airlines. We operate primarily from Shanghai's Hongqiao International Airport and Pudong International Airport. In 2009, in terms of flight take-off and landing statistics, our flights accounted for 37.0% and 28.2% of all the flight traffic at Hongqiao International Airport and Pudong International Airport, respectively. In 2009, we accounted for approximately 32.0% of the total passenger traffic volume and 19.0% of the total freight volume on routes to and from Shanghai. In 2009, we were ranked by the CAAC the most punctual Civil Aviation Operator in China for the second consecutive year.

Compared to 2008, our traffic volume (as measured in RTKs) increased by 9.55% from 7,219 million in 2008 to 7,909 million in 2009. Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) increased from 53,785 million in 2008 to 60,942 million in 2009, or 13.3%. Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) increased by 2.2% from 2,420 million in 2008 to 2,474 million in 2009.

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

Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the three years ended December 31, 2009:

| | 2007 (Millions of RMB) | 2008 (Millions of RMB) | 2009 (Millions of RMB) |
|------------------------|------------------------------|------------------------------|------------------------------|
| Traffic revenues | | | |
| Passenger | 31,238 | 27,875 | 31,436 |
| Cargo and mail | 4,279 | 3,772 | 3,017 |
| Fuel surcharges | 5,147 | 7,197 | 2,472 |
| Total traffic revenues | 40,664 | 38,844 | 36,925 |

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, 2009:

| | 2007 | 2008 | 2009 |
|---|--------|--------|--------|
| Passenger Traffic (in RPKs) (millions) | 57,183 | 53,785 | 60,942 |
| Domestic | 35,492 | 35,352 | 44,376 |
| Regional (Hong Kong, Macau and Taiwan) | 3,305 | 3,058 | 2,573 |
| International | 18,386 | 15,375 | 13,994 |
| Passenger Capacity (in ASKs) (millions) | 77,717 | 75,964 | 84,456 |
| Domestic | 46,166 | 47,588 | 59,235 |
| Regional (Hong Kong, Macau and Taiwan) | 5,075 | 4,562 | 3,835 |
| International | 26,476 | 23,814 | 21,386 |
| Passenger Yield (RMB) | 0.62 | 0.62 | 0.54 |
| Domestic | 0.61 | 0.61 | 0.54 |
| Regional (Hong Kong, Macau and Taiwan) | 0.65 | 0.64 | 0.63 |
| International | 0.61 | 0.66 | 0.51 |
| Passenger Load Factor (%) | 73.58 | 70.80 | 72.16 |

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| | | | |
|--|-------|-------|-------|
| Domestic | 76.88 | 74.29 | 74.91 |
| Regional (Hong Kong, Macau and Taiwan) | 65.12 | 67.02 | 67.08 |
| International | 69.44 | 64.56 | 65.43 |

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The primary focus of our business is the provision of domestic, regional and international passenger airline services. In 2009, we operated approximately 6,894 scheduled flights per week (excluding charter flights), serving a route network that covers 146 domestic and foreign cities in 21 countries.

In 2009, we operated approximately 5,797 domestic flights per week. Our domestic routes generated approximately 73.3% 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 304 flights per week to and from Hong Kong, originating from Shanghai and 17 other major cities in eastern, northern and western China. In addition, we operated approximately 42 flights per week between mainland China and Taiwan. Our regional routes accounted for approximately 5.0% of our passenger revenues in 2009.

In 2009, we operated approximately 752 international flights per week, serving 49 cities in 20 countries, primarily linking Shanghai to major cities in Asian and Southeast Asian countries (such as Japan, Korea, India, Singapore, Thailand and Bangladesh) and certain strategic locations in Europe, the United States and Australia. In 2009, we introduced the Hefei - Taipei, Nanchang - Taipei (Sonshan), Ningbo - Taipei, Qingdao - Taipei, Yancheng - Hong Kong, Shanghai - Shizuoka and Wuhan - Shanghai - Fukuoka routes. Revenues derived from our operations on international routes accounted for approximately 21.7% of our passenger revenues. Revenues derived from our operations to and from Japan accounted for approximately 7.0% of our passenger revenues and approximately 32.2% of our international passenger revenues in 2009.

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 have moved our operations at Hongqiao International Airport to the newly-constructed terminal two of Hongqiao International Airport since 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. The provincial hubs also enable us to provide convenient connections for passengers on flights to and from Shanghai. Aircraft used for regional operations are mainly maintained by us on site at the hubs, and our sales offices are also based at each provincial hub. In addition, we will continue to develop our operations in Beijing and Guangzhou as our principal bases for northern China and southern China, respectively. We will also focus on major cities, such as Nanjing, Hangzhou, Ningbo, Qingdao and other coastal cities in eastern China, to help increase our market share.

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, 2009:

| | Year Ended December 31, | | |
|---|-------------------------|-------|-------|
| | 2007 | 2008 | 2009 |
| Cargo and Mail Traffic (in RFTKs) (millions) | 2,614 | 2,420 | 2,474 |
| Domestic | 609 | 622 | 733 |
| Regional (Hong Kong, Macau and Taiwan) | 118 | 111 | 85 |
| International | 1,888 | 1,687 | 1,656 |
| Cargo and Mail Capacity (in AFTKs) (millions) | 5,091 | 4,805 | 4,904 |
| Domestic | 1,228 | 1,375 | 1,769 |
| Regional (Hong Kong, Macau and Taiwan) | 274 | 278 | 214 |
| International | 3,589 | 3,152 | 2,921 |
| Cargo and Mail Yield (RMB) | 2.10 | 2.21 | 1.67 |
| Domestic | 0.97 | 1.26 | 1.13 |
| Regional (Hong Kong, Macau and Taiwan) | 4.49 | 4.42 | 4.13 |
| International | 2.31 | 2.42 | 1.78 |
| Cargo and Mail Load Factor (%) | 51.34 | 50.36 | 50.45 |
| Domestic | 49.55 | 45.21 | 41.43 |
| Regional (Hong Kong, Macau and Taiwan) | 42.91 | 39.79 | 39.74 |
| International | 52.60 | 53.54 | 56.69 |

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 six MD-11F freight aircraft under operating leases for cargo and mail operations. We also have three Airbus A300-600R as well as two Boeing 747-400ER freighters for our cargo operations in 2009.

Our Operations by Geographical Segment

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

- (1) 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.
- (2) 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, 2009:

| | 2007 (millions of RMB) | 2008 (millions of RMB) | 2009 (millions of RMB) |
|---|------------------------------|------------------------------|------------------------------|
| Domestic (the PRC, excluding Hong Kong, Macau and Taiwan) | 24,134 | 24,333 | 26,888 |
| Regional (Hong Kong, Macau and Taiwan) | 2,695 | 2,474 | 1,947 |
| International | 15,705 | 14,265 | 10,155 |
| Total | 42,534 | 41,072 | 38,990 |

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.

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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 those international aviation conventions.

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.

Hong Kong 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 announced that they have reached an agreement in 2007 to further expand the Air Transportation Arrangement. This agreement will increase 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 from the winter of 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.

International Route Rights

International route rights, along with the corresponding landing rights, are derived from air services agreements negotiated between the PRC Government, acting through the CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled services between certain points within each country. Under the new air services agreement entered into between China and the U.S. in May 2007, the number of daily round-trip flights will increase from current 12 to 23 before 2012. As a result, the CAAC also expects to receive applications from Chinese airlines to fly international passenger routes. The CAAC awards the relevant route to an airline based on various criteria, including:

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

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

Airfare Pricing Policy

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

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

The CAAC and the National Development and Reform Commission, or NDRC, jointly publish the 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 and 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.

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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 the relevant PRC laws. Such pricing must be filed 30 days before effectiveness with the CAAC and NDRC. We expect that, as this and other reforms continue into 2010, we will have more flexibility in operating our aviation business in the future. The promotion by Chinese regulators of a regulated and orderly market and a fair and positive competition mechanism will also provide a favorable environment for the growth of our business.

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

Acquisition of Aircraft and Spare Parts

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

Domestic Fuel Supply and Pricing

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

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. Since the second half of 2008, international crude oil prices have 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 "Notice") by NDRC and CAAC, with effect from November 14, 2009, provided that fuel surcharges shall be charged by the airlines at their discretion to the extent of the stipulated scope instead charged unified. This Notice also set forth the specific charging standards of fuel surcharges.

Safety

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

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

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

Security

The CAAC establishes and oversees the implementation of security standards and regulations based on the PRC laws and standards established by international civil aviation organizations. Each airline is required to submit to the CAAC an aviation security handbook describing specific security procedures established by the airline for the day-to-day operations and security training for staff. Such security procedures must be formulated based on the relevant CAAC regulations. Chinese airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements. 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 handed over 93 civilian airports to provincial or municipal governments. The CAAC retained the authority to determine the take-off and landing charges, as well as charges on airlines for the use of airports and airport services. Prior to 2004, Chinese airlines were generally required to collect from their passengers on behalf of the CAAC a levy for contribution to the civil aviation infrastructure fund, which was used for improving China's civilian airport facilities. Our revenue for the previous years is shown net of this levy. In 2003, the levy was 5% of domestic airfares and 2% of international airfares. The levy was waived by the CAAC from May 1, 2003 to December 31, 2003. With effect from September 2004, the civil aviation infrastructure levies, now paid to the Ministry of Finance, have been reflected in air fares of Chinese airlines rather than collected as a separate levy.

On December 28, 2007, the Civil Aviation Administration of China and the NDRC released the Implementing Scheme for the Civil Aviation Airport Charges Reform Implementation Plan, which was implemented on March 1, 2008. This new plan divides airport charges into three parts: charges related to airline businesses; charges related to important non-airline items; and other non-airline charges. The charges related to airline businesses and important

non-airline items must follow the national guided prices, in which the standard prices are rarely increased, while reduced rates can be negotiated between the airport or the service provider and the users. The plan grants us the right to negotiate with airports on the airport charges.

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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 aggregately hold a majority of our total outstanding shares. As of December 31, 2009, approximately 30.99% of our total outstanding shares are 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).

Competition

Domestic

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 faced intense competition from entrants to our domestic markets as new investments into China's civil aviation industry are 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. If the restriction is lifted in the future, we expect that competition from other Chinese airlines on our routes will further intensify. 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.

There are currently a total of 34 Chinese airlines (25 for passenger and nine for cargo) in mainland China, and our Company competes with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. Our Company, Air China Limited, or Air China, which is based in Beijing and listed on the Hong Kong Stock Exchange and the London Stock Exchange, and China Southern Airlines Company Limited, or China Southern, which is based in Guangzhou and listed on the Hong Kong Stock Exchange and the New York Stock Exchange, are the three leading air carriers in China, both in terms of revenue tonne-kilometers and size of operations. Each of these three airlines operates at least 250 routes and has a fleet of at least 250 jet aircraft. As of December 31, 2009, our Company, Air China and China Southern accounted for 18.6%, 23.6% and 23.7%, respectively, of the total commercial air traffic (as measured in RTKs) handled by Chinese airlines.

Each of the domestic airlines competes against other airlines operating the same routes or flying indirect routes to the same destinations. Our principal competitors in the domestic market are China Southern and Air China, which also provide transportation services on some of our routes, principally routes originating from the major air transportation hubs in China, such as Shanghai, Guangzhou and Beijing. Some of these routes are among our most heavily traveled routes. Since most of the major domestic airlines operate routes from their respective hubs to Shanghai, our Company also competes against virtually all of the major domestic airlines on these routes. The number of airlines operating flights to and from Shanghai has increased significantly in recent years. However, we believe our recent 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.

Regional

Our Hong Kong routes are highly competitive. The primary competitor on our Hong Kong routes is Hong Kong Dragon Airlines Limited, or Dragonair. We currently operate approximately 304 flights per week between 17 Chinese cities and Hong Kong. Cathay Pacific Airways, or Cathay, and Dragonair compete with us on several of these routes, particularly the Shanghai-Hong Kong route. The Air Transportation Arrangement signed between the PRC Government and the administrative government of Hong Kong in February 2000 provides for equal opportunity for airlines based in Hong Kong and mainland China. As a result, Dragonair has increased the frequency of its flights on several of our Hong Kong routes, resulting in intensified competition. Our Company also faces competition from Dragonair in our Hong Kong cargo operations.

Cathay, which owns Dragonair, also cooperates with Air China and operates all passenger services of Cathay and Air China between Hong Kong and mainland China as joint venture routes under code-share and revenue and cost-pooling arrangements. This may further intensify the competition on the routes between Hong Kong and mainland China and impose greater competitive pressure on the other airline companies operating on these routes.

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 between 21 cities in mainland China and eight cities in Taiwan and approximately 270 regular direct flights per week with effect from 2009 between 27 cities in mainland China and eight cities in Taiwan. China and Taiwan agreed to further increase flight destinations for air links between the two sides in mainland China to 31 cities in 2010. The two sides also agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. We currently operate flights to Taipei from Shanghai, Nanjing, Xi'an, Kunming, Wuhan, Hefei, Nanchang, Ningbo and Qingdao. In addition, through our absorption of Shanghai Airlines in 2010, we have added three additional direct routes to Taipei from Shanghai, Tianjin and Nanjing. However, as one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.

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

International

We compete with Air China, China Southern and many other well-established foreign carriers on our international routes. Most of our international competitors are very well-known international carriers and are substantially larger than us 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 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. It is expected that there will be a significant increase in China-U.S. air services over the next few years due to this agreement, which would further intensify competition in this market. Another air transport agreement was signed between China and the United States on July 9, 2007 in order to increase travel and tourism and promote cultural, business and governmental exchanges between China and the United States, as well as to promote the ultimate objective of full liberalization of the bilateral air transport market. A trade services agreement was also signed between China and ASEAN countries in January 2007 and became effective in July 2007 to remove the restrictions on China's entry into foreign freight markets.

Air China operates the largest number of international routes among all Chinese airlines. Beijing, the hub of Air China's operations, is the destination for most international flights to China. We primarily compete with Air China on our passenger routes to Japan. On our Korean routes, we compete with Asiana Airlines and Korean Air. Our principal competitors on our flights to Southeast Asia include Thai Airways International, Singapore Airlines and China Southern. On our passenger flights to the United States, our principal competitors include Delta Air Lines, United Airlines, American Airlines, Air China and Air Canada. On our European routes, our competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways, Lufthansa German Airlines and Aeroflot. We compete with Air China and Qantas Airways Ltd. 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.

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

We currently perform regular repair and maintenance checks on all of our aircraft. We are able to perform D1 checks on our Boeing 737NG and Airbus A320 and C checks on Boeing 737-300, 767-300, Airbus A300-600, MD-90, CRJ-200 and EMB-145LR. We also perform certain maintenance services for other Chinese airlines. Our primary aircraft maintenance base is at Hongqiao International Airport. We have additional maintenance bases at Pudong International Airport and some of our provincial hubs. Our maintenance staff in Shanghai supervises the operation of our regional maintenance facilities. We currently employ approximately 9,411 workers as maintenance and engineering personnel. Some of our aircraft maintenance personnel have participated in the manufacturer training and support programs sponsored by Airbus Industries G.I.E., or Airbus, and Boeing Corporation, or 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. holds 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 holds 51% and 49%, respectively, of the equity interests in the joint venture.

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

Safety

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

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

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

Fuel Supplies

Fuel costs represented approximately 31.9% of our operating expenses in 2009. 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 2009, our fuel expenses decreased 33.7% as a result of a decline in weighted average domestic and international fuel prices. We note, however, that in the period since December 31, 2009 international fuel prices have begun to rise again and may continue to do so.

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 have improved the quality of our in-flight meal service in recent years.

We incur certain airport usage fees and other charges for services performed by the airports from which we operate flights, such as air traffic control charges, take-off and landing fees, aircraft parking fees and fees payable in

connection with the use of passenger waiting rooms and check-in counter space. At domestic airports, such fees are generally charged at rates prescribed by the CAAC, which are lower than rates generally in effect at airports outside China.

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Marketing And Sales

Passenger Operations

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

We have also adopted customized strategies to market our services to particular travelers. We seek to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travelers, we focus on the frequency of flights between major business centers, convenient transit services and an extensive sales network. We launched our initial frequent flyer program in 1998 and joined the “Asia Miles” frequent flyer program in April 2001 to attract and retain travelers. In August 2003, we upgraded and rebranded our frequent flyer program to “Eastern Miles” and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels and restaurants that are our strategic partners. As a result of our continual efforts to develop the “Eastern Miles” program, the number of members of the frequent flyer program reached approximately 6.0 million in 2009. The special services hotline “95530” call center was established and came into operation in 2004.

In 2000, we launched the “China Eastern Airlines-Great Wall” co-branded credit card jointly with the Bank of China, which provides our customers with benefits such as airfare discounts, hotel room reservation packages and increased baggage allowances. In 2004, working with partner hotels, we launched our Eastern Holiday product series to attract more leisure travelers. In addition, we continued to promote our “China Eastern Express” services on our Shanghai-Hong Kong and Shanghai-Beijing routes and our “China Shuttle” transit services. Our “China Eastern Express” services (including “BTBT” and “Shanghai Beijing Express”) provide more scheduled flights on some of our heavily traveled routes, such as Shanghai-Hong Kong and Shanghai-Beijing, compared with our other routes. Our “China Shuttle” services provide expedited transit services at Hongqiao International Airport and Pudong International Airport for transit travelers on domestic routes and certain international routes, significantly enhancing our customer service. We streamlined the transfer and connection procedures, rationally allocated flights, and also introduced different fares for connection flights to meet the needs of different travelers. In 2005, we launched international routes originating from Shenyang, Dalian, Xi’an, Shenzhen, Chongqing, Chengdu and Harbin under internal code-sharing arrangements. We also introduced the “Single Check-in for Transit Passengers and Luggage” service in 23 cities. All of these efforts improved the quality of our transit services and, as a result, the number of passengers who used our transit services exceeded 690,000 and 1,560,000 persons/time in 2008 and 2009, respectively. In June 2004, we officially introduced our China Eastern Service Scheme to the public at large. Under this scheme, we devote efforts to flight scheduling, assurance and maintenance and enhance our non-regular services.

We have entered into code-sharing arrangements with American Airlines, Japan Airlines, Korean Airlines, Asiana Airlines, Qantas Airways, Air France, Thai Airways and China Southern Airlines. We are also contemplating more code-sharing arrangements with other airlines and plan to continue to strengthen our existing cooperation with other international airlines.

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

In 2002, we upgraded our online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. We continue to encourage our customers to book and purchase tickets via the Internet. We also maintain an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of our airline tickets are sold by domestic and international sales agents. Our tickets are sold throughout China through over 8,400 large and mid-sized sales agencies and travel agencies who have contractual relationships with us. Currently, our direct domestic ticket sales are handled primarily through employees based at our ticket counters located at airports such as Hongqiao International Airport and Pudong International Airport in Shanghai and in Anhui, Zhejiang, Shandong and Yunnan provinces, as well as at airports in Beijing, Chengdu, Fuzhou, Guangzhou, Hangzhou, Shenzhen, Xiamen and Yantai. Direct sales are also promoted through the availability of our telephone reservation and confirmation services. In addition to our domestic sales agents, we maintain overseas sales or representative offices worldwide, including North American locations such as Los Angeles, New York and Vancouver; African and European locations such as Algiers, Brussels, Frankfurt, London, Madrid, Moscow, Munich and Paris; Asia-Pacific locations such as Bangkok, Dacca, Fukuoka, Fukushima, Hiroshima, Ho Chi Minh City, Kagoshima, Kaohsiung, Kolkata, Komatsu, Kuala Lumpur, Mandalay, Matsuyama, Melbourne, Mumbai, Nagasaki, Nagoya, New Delhi, Niigata, Okayama, Okinawa, Osaka, Phnom Penh, Phuket, Sapporo, Seoul, Shizuoka, Siem Reap, Singapore, Sydney, Tokyo and Vientiane, which facilitate the sale of international and Hong Kong air tickets and provide reservation confirmation and other services. In addition, we established our Hong Kong operations division in 2005 to facilitate our marketing and sales in Hong Kong. We also established a Taipei office in May 2009 to provide administrative and support services for passengers, as well as to prepare supplies for our flight crew.

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

Cargo Operations

We maintain a network of cargo sales agents domestically and internationally. We established domestic cargo sales offices in Beijing, Shanghai, Xiamen and other major transportation hubs in China, and international cargo sales offices in Hong Kong, Tokyo, Osaka, Nagoya, Seoul, Los Angeles, Dallas, Seattle, Chicago, San Francisco, New York, Anchorage, Paris, Luxembourg and our other overseas flight destinations. In 2005, we established our northern China, southern China, southeastern China and overseas sales management centers to improve coordination among our sales offices.

General Aviation Services and Ancillary Activities

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

Moreover, we 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 2009, we generated net revenues of approximately RMB1,272 million from our airport ground services and cargo handling services.

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

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

Patents and Trademarks

We own or have obtained licenses to use various domestic and foreign patents, patent applications and trademarks related to our business. While patents, patent applications and trademarks are important to our competitive position, no single one is material to us as a whole.

We own various trademarks related to our business. The most important trademark is the service trademark of China Eastern Airlines Corporation Limited. All of our trademarks are registered in China.

Insurance

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

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

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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, 2009, we operated a fleet of 257 aircraft, including 231 passenger jets, each with a seating capacity of over 100 seats, and 11 jet freighters. In 2009, we completed (i) the purchase or finance lease of a total of 21 aircraft, including ten A320 aircraft, seven B737-700 aircraft and four B737-800 aircraft; (ii) the operating lease of two B737-800 aircraft; and (iii) the surrender of the lease of six aircraft (including five B737-300 aircraft and one B737-800 aircraft). On June 15, 2009, we entered into an agreement with Airbus SAS to purchase 20 A320 Series aircraft (with engines). On December 23, 2009, we entered into an agreement with Airbus SAS to purchase 16 A330 Series aircraft (with engines). We plan to continue to expand our scale in 2010 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, 2009, we had a fleet of 257 aircraft, including 231 passenger jets each with a seating capacity of over 100 seats and 11 jet freighters. The following table sets forth the details of our fleet as of December 31, 2009:

| | Total Number of Aircraft | Number of Aircraft Owned and Finance Lease | Aircraft under Operating Lease | Average Number of Seats | Average age (in years) (1) |
|----------------------------------|--------------------------------|--|---|-------------------------------|----------------------------------|
| Jet Passenger Aircraft: | | | | | |
| Wide-body: | | | | | |
| A340-600 | 5 | 5 | — | 322 | 6 |
| A340-300 | 5 | 5 | — | 289 | 13 |
| A330-300 | 15 | 8 | 7 | 300 | 3 |
| A330-200 | 5 | 2 | 3 | 264 | 3 |
| A300-600R | 7 | 7 | — | 274 | 15 |
| B767-300 | 3 | 3 | — | 263 | 13 |
| Narrow-body: | | | | | |
| MD-90 | 9 | 9 | — | 157 | 12 |
| A321 | 15 | 15 | — | 177 | 3 |
| A320 | 83 | 57 | 26 | 158 | 7 |
| A319 | 15 | 5 | 10 | 122 | 7 |
| Boeing 737-800 | 13 | 4 | 9 | 165 | 5 |
| Boeing 737-700 | 39 | 24 | 15 | 134 | 6 |
| Boeing 737-300 | 17 | 16 | 1 | 145 | 13 |
| EMB 145LR | 10 | 10 | — | 50 | 3 |
| CRJ-200 | 5 | 5 | — | 50 | 8 |
| Total Passenger Aircraft: | 246 | 175 | 71 | — | — |

| | | | | | |
|------------------------------|-----------|----------|----------|----------|----------|
| Cargo Aircraft: | | | | | |
| MD-11F | 6 | — | 6 | — | 17 |
| A300-600R | 3 | 3 | — | — | 20 |
| B747-400ER | 2 | 2 | — | — | 3 |
| Total Cargo Aircraft: | 11 | 5 | 6 | — | — |
| Total Fleet | 257 | 180 | 77 | — | — |

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

Our daily average aircraft utilization rate was 9.4 hours in 2009, representing an increase of 0.3 hours compared to 2008. The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the three years ended December 31, 2009:

| | 2007 | 2008 (in hours) | 2009 |
|---------------------|------|--------------------|------|
| Wide-body: | | | |
| A340-600 | 13.7 | 10.9 | 11.8 |
| A340-300 | 11.7 | 9.5 | 8.9 |
| A330-300 | 9.6 | 8.9 | 9.4 |
| A330-200 | 14.2 | 13.3 | 12.6 |
| A300-600 | 9.3 | 7.9 | 7.5 |
| B767-300 | 10.1 | 7.7 | 9.7 |
| Narrow-body: | | | |
| MD-90 | 7.7 | 5.6 | 6.3 |
| A321 | 9.6 | 9.1 | 9.8 |
| A320 | 9.8 | 9.3 | 9.8 |
| A319 | 10.0 | 9.3 | 9.0 |
| Boeing 737-800 | 10.6 | 9.8 | 10.3 |
| Boeing 737-700 | 10.0 | 9.8 | 10.2 |
| Boeing 737-300 | 9.4 | 8.9 | 9.5 |
| EMB 145 | 8.0 | 6.5 | 7.6 |
| CRJ-200 | 8.5 | 7.8 | 7.3 |

Most of our jet passenger aircraft were manufactured by either Airbus or Boeing. Our Airbus A340-300 and A340-600 aircraft are primarily used for our routes to the United States, Europe, Korea and other international destinations, including Los Angeles, New York, London, Paris, Seoul, and Bangkok, and on major domestic routes to cities such as Dalian. Our Airbus A330 aircraft are primarily used for our Beijing-Shanghai and Singapore, Australia, India, Japan and Korea routes. Our Airbus A320, MD-90 and Boeing B737 aircraft are suitable for middle and short distance flights and are primarily used for our domestic routes. Our Airbus A320 aircraft are also used primarily on our Hong Kong routes. Our EMB145LR and CRJ-200 aircraft are mainly used on our regional short-distance routes.

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

Future Fleet Development

Our aircraft acquisition program focuses on aircraft that will modernize and rationalize our fleet to better meet the anticipated requirements of our route structure, taking into account aircraft size and fuel efficiency. Our aircraft acquisition program, however, is subject to the approval of the CAAC and the NDRC. The following table summarizes our currently anticipated jet aircraft deliveries from 2010 to 2015 as of December 31, 2009:

| | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | Total |
|-----------------|-------|-------|-------|-------|-------|-------|-------|
| Aircraft | | | | | | | |
| A320 | 14 | 11 | 12 | 7 | — | — | 44 |
| A330 | — | 3 | 3 | 6 | 4 | — | 16 |
| B737-800 | 2 | 1 | 1 | 4 | 4 | 5 | 17 |
| B737-700 | 4 | 1 | 2 | 3 | 5 | 4 | 19 |
| Total | 20 | 16 | 18 | 20 | 13 | 9 | 96 |

The actual acquisition of any of these aircraft or any additional aircraft may depend on such factors as the general economic conditions, our operating results and other capital requirements. We believe that our aircraft acquisition plan will help us accomplish our expansion plans while maintaining an efficient fleet and ensuring alternative sources of supply.

Fleet Financing Arrangements

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

Operating Facilities

The Company (including branches) had operations on 33 parcels of land, occupying a total area of approximately 1.56 million square meters, as of December 31, 2009. The Company has obtained the land use rights certificates and building ownership certificates for certain parcels of land and, with CEA Holding's assistance, is currently in the process of applying for the certificates with respect to the remaining parcels. Our five major holding subsidiaries, including China Cargo Airlines Co., Ltd., Eastern Jiangsu, CEA Wuhan, Eastern Logistics and Shanghai Eastern Flight Training Co., Ltd., owned and had operations on 44 parcels of land, occupying a total area of approximately 1.53 million square meters, as of December 31, 2009.

As of December 31, 2009, the Company (including branches) owned 1,322 buildings, with a total gross floor area of approximately 556,000 square meters. Our five major holding subsidiaries owned 157 buildings, with a total gross floor area of approximately 572,003 square meters as of December 31, 2009.

We have entered into lease agreements with CEA Holding and other third parties both domestically and overseas for the properties that we use to conduct our operations, which generally include leasing ticket counters, terminal space and other ancillary airport facilities. For example, we lease from CEA Holding the office buildings in Hongqiao International Airport and the properties of our Shanxi branch, Hebei branch and Northwest branch. We also have leases at other airport facilities, including Pudong Airport, Xi'an Airport, Beijing Capital International Airport and Kunming Airport in China.

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.

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 7.4%, from 11,642.2 million ATKs in 2008 to 12,505.5 ATKs in 2009, and our passenger capacity on an available seat kilometer, or ASK, basis increased by 11.2%, from 75,964.3 million ASKs in 2008 to 84,456.4 million ASKs in 2009. Total traffic on a revenue tonne kilometer, or RTK, basis increased by 9.6%, from 7,219 million RTKs in 2008 to 7,909 RTKs in 2009.

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

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

Operating Segments

Effective January 1, 2009, the Company has redefined its operating segments to present 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. From a service perspective and pursuant to the above re-segmentation, the Company has only one reportable operating segment, reported as "airline operations". The comparative amounts for 2007 and 2008 have been restated to reflect this segmentation. See Note 7 to our audited consolidated financial statements.

A. Operating Results

The following tables set forth our summary income statements and balance sheet data:

| | Year Ended December 31, | | | | |
|---|-------------------------|-------------|-------------|-------------|-------------|
| | 2005 RMB | 2006 RMB | 2007 RMB | 2008 RMB | 2009 RMB |
| (in millions, except per share data) | | | | | |
| Summary Income Statements Data (IFRS) | | | | | |
| Revenues | 27,380 | 37,557 | 42,534 | 41,073 | 38,990 |
| Other operating income and gains | 245 | 499 | 488 | 672 | 1,288 |
| Operating expenses | (27,562) | (40,795) | (42,894) | (56,828) | (38,456) |
| Operating profit/(loss) | 63 | (2,740) | 128 | (15,083) | 1,821 |
| Finance (costs)/income, net | (578) | (731) | 162 | (267) | (1,549) |
| Profit/(loss) before income tax | (528) | (3,338) | 378 | (15,256) | 249 |
| Profit/(loss) for the year attributable to equity holders of the Company | (418) | (3,035) | 379 | (15,269) | 169 |
| Earnings/(loss) per share attributable to equity holders of the Company (1) | (0.09) | (0.62) | 0.08 | (3.14) | 0.03 |

| | As of December 31, | | | | |
|---|--------------------|-------------|-------------|-------------|-------------|
| | 2005 RMB | 2006 RMB | 2007 RMB | 2008 RMB | 2009 RMB |
| (in millions) | | | | | |
| Summary Balance Sheet Data | | | | | |
| Cash and cash equivalents | 1,864 | 1,987 | 1,655 | 3,451 | 1,735 |
| Net current liabilities | (25,548) | (24,588) | (26,098) | (43,458) | (28,648) |
| Non-current assets | 52,106 | 51,725 | 57,949 | 62,652 | 64,988 |
| Long term borrowings, including current portion | (12,659) | (14,932) | (14,675) | (15,628) | (16,928) |
| Obligations under finance leases, including current portion | (10,588) | (11,949) | (16,452) | (20,809) | (19,370) |
| Total share capital and reserves | 5,561 | 2,534 | 2,361 | (13,097) | 1,235 |

(1) The calculation of earnings/(loss) per share is based on the consolidated profit/(loss) attributable to shareholders and the weighted average number of shares of 6,436,828,000 in issue during the year.

2009 Compared to 2008

Revenues

Our revenues decreased by 5.1% from RMB41,073 million in 2008 to RMB38,990 million in 2009 (net of the applicable PRC business tax). Revenues decreased in each of our passenger and cargo and mail business operations, due primarily to decreased average yield. In 2009, we transported a total of 44.0 million passengers, representing an increase of 18.3% from 37.2 million passengers in 2008. Our total passenger traffic (as measured in RPKs) increased by 13.3% from 53,785 million passenger-kilometers in 2008 to 60,942 million passenger-kilometers in 2009 and our total cargo and mail traffic (as measured in RFTKs) increased by 2.2% from 2,420 million freight tonne-kilometers in 2008 to 2,474 million freight tonne-kilometers in 2009. However, our average yield for our passenger operations decreased by 12.9% from RMB0.62 per passenger-kilometer in 2008 to RMB0.54 per passenger-kilometer in 2009 primarily due to the global financial crisis, resulting in a decrease in business travel activity and the decrease in passengers on our international routes. Our average yield for our cargo and mail

operations decreased by 24.4% from RMB2.2 per tonne-kilometer in 2008 to RMB1.7 per tonne-kilometer in 2009, primarily due to the global financial crisis, resulting in reduced demand for cargo and mail transportation capacity and a reduction in cargo and mail transportation prices.

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This decrease was primarily due to the decrease in per-unit revenue as a result of the decrease in demand on regional and international flights resulting from the global financial crisis and the decrease in our fuel surcharge income. We suspended fuel surcharges on our domestic flights for the first half of 2009 due to a decrease in international crude oil prices during that period, but resumed fuel surcharges in November 2009.

The following chart sets forth our revenue breakdown for the years 2008 and 2009:

| | Year ended December | | 2009 vs. 2008 | |
|--|----------------------|----------|---------------------|-----------------------|
| | 2009 | 31, 2008 | Increase (decrease) | % increase (decrease) |
| | (in millions of RMB) | | | |
| Traffic revenues | 36,925 | 38,844 | (1,919) | (4.9)% |
| Passenger | 32,800 | 33,486 | (686) | (2.0)% |
| Passenger revenue excluding fuel surcharges | 31,436 | 27,875 | 3,561 | 12.8% |
| Fuel surcharges | 1,364 | 5,611 | (4,247) | (75.7)% |
| Cargo and mail | 4,125 | 5,358 | (1,233) | (23.0)% |
| Cargo and mail revenue excluding fuel surcharges | 3,017 | 3,772 | (755) | (20)% |
| Fuel surcharges | 1,108 | 1,586 | (478) | (30.1)% |
| Others (1) | 2,065 | 2,228 | (163) | (7.3)% |
| Total operating revenue | 38,990 | 41,072 | (2,082) | (5.1)% |

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

Note: Pursuant to the 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%. The business tax incurred and set off against the above Company's revenues for the year ended December 31, 2009 amounted to approximately RMB1,019 million (2008: RMB891 million).

Passenger revenues

Our passenger traffic revenues decreased by RMB686 million, or 2.0%, from RMB33,486 million in 2008 to RMB32,800 million in 2009, which accounted for 88.8% of our total traffic revenues in 2009. The decrease was primarily due to the decrease in fuel surcharges income as well as the lack of demand resulting from the financial crisis.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 73.3% of our total passenger traffic revenues in 2009, increased by 12.4% from RMB21,389 million in 2008 to RMB24,038 million in 2009. The increase was mainly due to the positive adjustment of our transportation capacity and the growth in, and allocation to, domestic passenger traffic capacity, which increased by 24.5% from 2008 to 2009. Compared to 2008, our domestic passenger traffic (as measured in RPKs) increased by 25.5%, from 35,352 million in 2008 to 44,376 million in 2009. The number of passengers carried on domestic routes increased by 25.0%, from 30.4 million in 2008 to 38.0 million in 2009. Our passenger-kilometers yield for domestic routes decreased from RMB0.61 per passenger-kilometer in 2008 to RMB0.54 per passenger-kilometer in 2009.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for 5.0% of our total passenger traffic revenues in 2009, decreased by 17.0% from RMB1,963 million in 2008 to RMB1,630 million in 2009. This decrease was primarily due to intensified competition and a significant decrease in the demand for transportation capacity, which led to a decrease of 15.9%, from 3,058 million in 2008 to 2,573 million in 2009, in our regional passenger traffic (as measured in RPKs). The number of passengers carried on Hong Kong, Macau and Taiwan routes decreased by 11.8%, from 2.1 million in 2008 to 1.9 million in 2009. Our passenger-kilometers yield for regional routes decreased from RMB0.64 per passenger-kilometer in 2008 to RMB0.63 per passenger-kilometer in 2009.

International passenger traffic revenues, which accounted for 21.7% of our total passenger traffic revenues in 2009, decreased by 29.6% from RMB10,134 million in 2008 to RMB7,133 million in 2009. This decrease was primarily due to the intensified effect of the global financial crisis on international air transportation, as a result of which we continued to reduce the number of flights on long-distance routes to Europe, the United States and other destinations. Our international passenger traffic (as measured in RPKs) decreased by 9.0% in 2009, from 15,375 million in 2008 to 13,994 million in 2009. The number of passengers carried on international routes decreased by 11.1%, from 4.7 million in 2008 to 4.2 million in 2009. Our passenger-kilometers yield for international routes decreased from RMB0.66 per passenger-kilometer in 2008 to RMB0.51 per passenger-kilometer in 2009.

Cargo and mail revenues

Cargo and mail yield decreased from RMB2.21 in 2008 to RMB1.67 in 2009 per cargo tonne-kilometer primarily due to a decrease in cargo market prices. Our cargo and mail traffic revenues decreased by RMB1,233 million, or 23.0%, from RMB5,358 million in 2008 to RMB4,124 million in 2009, which accounted for 11.2% of our total traffic revenues in 2009. Revenue from cargo and mail traffic via bellyhold cargo space on the Company's passenger aircraft was RMB1,725 million, which accounted for 41.8% of total freight revenue and 4.7% of total traffic revenue in 2009. The tonne-kilometers yield for cargo and mail traffic decreased by 24.4% compared to the same period in 2008. The decrease was primarily due to the financial crisis, which caused a substantial decrease in our international and regional freight transportation capacity and caused a significant decrease in our cargo and mail revenue. Although there were initial signs of recovery for the freight transportation market in the fourth quarter of 2009, it was not sufficient to offset the impact of the financial crisis on the Company's freight transportation business.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for 20.0% of our total cargo and mail traffic revenues in 2009, increased by 5.5% from RMB785 million in 2008 to RMB828 million in 2009. This increase was primarily due to an increase of 14.4% in the weight of cargo and mail carried on our domestic routes from 463 million kilograms in 2008 to 530 million kilograms in 2009. Compared to 2008, our domestic cargo and mail traffic (as measured in RFTKs) increased by 17.9%, from 622 million in 2008 to 733 million in 2009. The weight of cargo and mail carried on domestic routes slightly increased by 14.4%, from 463 million kilograms in 2008 to 530 million kilograms in 2009. Our freight tonne-kilometers yield for domestic routes decreased from RMB1.26 per tonne-kilometer in 2008 to RMB1.13 per tonne-kilometer in 2009.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for 8.5% of our total cargo and mail traffic revenues in 2009, decreased by 28.4% from RMB489 million in 2008 to RMB350 million in 2009. This decrease was primarily due to a decrease of 23.4%, from 111 million in 2008 to 85 million in 2009, in our regional cargo and mail traffic (as measured in RFTKs). The amount of cargo and mail carried on our Hong Kong, Taiwan and Macau routes also decreased by 13.1%, from 76 million kilograms in 2008 to 66 million (as measured in RFTKs) in 2009. Our freight tonne-kilometers yield for regional routes decreased from RMB4.42 per tonne-kilometer to RMB4.13 per tonne-kilometer.

International cargo and mail traffic revenues, which accounted for 71.4% of our total cargo and mail traffic revenues in 2009, decreased by 27.9% from RMB4,083 million in 2008 to RMB2,946 million in 2009, due to reduced demand for cargo and mail transportation capacity during the financial crisis, resulting in a decrease in the amount of cargo and mail carried and a decrease in cargo and mail transportation prices. The amount of cargo and mail transported on our international routes decreased by 0.7% from 350 million kilograms in 2008 to 348 million kilograms in 2009. Our prices for cargo and mail transportation on international routes also decreased as our freight tonne-kilometers yield for international routes decreased from RMB2.42 per tonne-kilometer in 2008 to RMB1.78 per tonne-kilometer in 2009.

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 7.3% from RMB2,228 million in 2008 to RMB2,065 million in 2009 due to increased competition in the logistics business.

Operating Expenses

The following chart sets forth a breakdown of our operating expenses for the years 2008 and 2009:

| | Year Ended December 31, | | 2009 vs. 2008 | |
|-----------------------------------|-------------------------|---------------|------------------------|--------------------------|
| | 2009 | 2008 | increase (decrease) | % increase (decrease) |
| | (in millions of RMB) | | | |
| Operating Expenses: | | | | |
| Aircraft fuel expenses | 12,255 | 18,488 | (6,233) | (33.7)% |
| Takeoff and landing charges | 5,460 | 5,280 | 180 | 3.4% |
| Depreciation and amortization | 5,203 | 4,782 | 421 | 8.8% |
| Salaries and related costs | 5,149 | 4,545 | 604 | 13.3% |
| Office, administration and other | 3,752 | 4,056 | (304) | (7.5)% |
| Maintenance costs | 3,019 | 3,273 | (254) | (7.8)% |
| Aircraft operating lease expenses | 2,518 | 2,735 | (217) | (7.9)% |
| Impairment losses for assets | 109 | 2,977 | (2,868) | (96.3)% |
| Selling and marketing expenses | 1,978 | 1,563 | 415 | 26.6% |
| Other | (987) | 9,129 | (10,116) | (110.8)% |
| Total operating expense | 38,456 | 56,828 | (18,372) | (32.3)% |

Our total operating expenses decreased by 32.3% from RMB56,828 million in 2008 to RMB38,456 million in 2009 primarily due to a significant decrease in aviation fuel expenses, decrease in aircraft maintenance expenses decrease in impairment losses, decrease in aircraft operating lease rentals and a decrease in office, administrative and other expenses. Our total operating expenses as a percentage of our revenues decreased from 138.4% in 2008 to 98.6% in 2009.

Aircraft fuel expenses decreased by 33.7% from RMB18,488 million in 2008 to RMB12,255 million in 2009. This decrease was primarily due to a substantial decline of approximately 38.6% in the average price of aviation fuel. In 2009, we consumed a total of approximately 2.6 million tonnes of aviation fuel, representing an increase of 8.2% compared to 2008. Our weighted average fuel price per tonne in 2009 decreased substantially by approximately 38.6% from 2008. Aircraft fuel expenses accounted for 31.9% of our total operating expenses in 2009, as compared to 32.5%

in 2008.

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Changes in fair value of financial derivatives resulted in a reversal and gain of RMB3,775 million, compared to a loss of RMB6,401 million during the same period in 2008. The difference was mainly due to the increase of 79.5% in international oil prices at the end of 2009 compared with the end of 2008. In 2009, the fair value movements of financial derivatives charged to the income statement accounted for 9.8% of our total operating expenses. As of December 31, 2009, the gain in fair value in our aviation fuel hedging contracts had contributed to the profit of our Company in the amount of approximately RMB3,744 million. See Note 3(a) to our audited consolidated financial statements for details.

Take-off and landing charges, which accounted for 14.2% of our total operating expenses in 2009, increased by 3.4% from RMB5,280 million in 2008 to RMB5,460 million in 2009 primarily due to an increase in the number of take-offs and landings of approximately 14.9% as compared to the same period in 2008.

Depreciation and amortization increased by 8.8% from RMB4,782 million in 2008 to RMB5,203 million in 2009. The increase in depreciation and amortization costs was primarily due to the expansion of the scale of the Company's operations and an increase in the number of our aircraft, as well as new property acquired by the Company at Hongqiao International Airport.

Wages, salaries and benefits, which accounted for 13.4% of our total operating expenses in 2009, increased by 13.3% from RMB4,545 million in 2008 to RMB5,149 million in 2009, primarily due to the continued expansion of our core businesses.

Office, administration and other expenses, decreased by 7.5% from RMB4,056 million in 2008 to RMB3,752 million in 2009 primarily due to the Company's increased efforts to control costs, which lead to a general decrease in certain costs and expenses.

Selling and marketing expenses, increased by 26.6% from RMB1,563 million in 2008 to RMB1,978 million in 2009, accounting for 5.1% of our total operating expenses in 2009. The increase was primarily a result of an increase in the number of passengers carried and the corresponding increase in agency business handling fees.

Aircraft operating lease expenses decreased by 7.9% from RMB2,735 million in 2008 to RMB2,518 million in 2009. The decrease was primarily due to the surrender in 2009 of operating leases for six aircraft, namely, five B737-300 aircraft and one B737-800 aircraft, partially offset by new operating leases on two B737-800 aircraft.

Aircraft maintenance expenses, which accounted for 7.8% of our total operating expenses in 2009, decreased by 7.8% from RMB3,273 million in 2008 to RMB3,019 million in 2009. This was primarily due to a decrease in maintenance costs realized by not sending aircraft to foreign countries for maintenance, as the result of an increase in domestic maintenance capacity in China.

Impairment losses for assets decreased from RMB2,977 million in 2008 to RMB109 million in 2009. This was primarily due to a decrease in impairment provisions as no significant impairment provisions were made in 2009, while impairment provisions were made in 2008 for goodwill and certain models of aircraft and relevant flight equipment, and impairment provisions made for fixed assets held for sale.

Other Operating Income and Other Gains

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 RMB672 million in 2008 to RMB1,288 million in 2009 primarily due to the refund of civil aviation infrastructure levies of RMB832 million in 2009. 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.

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Finance Costs

Our finance costs decreased by 24.6% from RMB2,328 million in 2008 to RMB1,755 million in 2009 primarily due to the decrease of 27.5% in interest on loans from banks and other financial institutions, from RMB1,940 million in 2008 to RMB1,407 million in 2009 as well as the decrease of 24.6% in interest relating to obligations under finance leases, from RMB646 million in 2008 to RMB 487 million in 2009. The decrease in interest rates was primarily due to the lowering of interest rates in 2009 due to the economic downturn. In addition, we used a portion of the proceeds from our share issuances in 2009 to repay a portion of the principal of our outstanding loans, resulting in a decrease in our finance costs in 2009.

Net Profit / (Loss)

As a result of the foregoing operating results, the net profit attributable to equity holders was RMB169 million in 2009, as compared to a net loss of RMB15,269 million in 2008.

Fixed Assets

Our Company had approximately RMB56,704 million of fixed assets as of December 31, 2009, including aircraft, engines and flight equipment.

2008 Compared to 2007

Revenues

The following chart sets forth our revenue breakdown for the years 2007 and 2008:

| | Year ended December 31, | | 2008 vs. 2007 | |
|--|-------------------------|--------|------------------------|--------------------------|
| | 2008 | 2007 | Increase (decrease) | % increase (decrease) |
| | (in millions of RMB) | | | |
| Traffic revenues | 38,844 | 40,664 | (1,820) | (4.5)% |
| Passenger | 33,486 | 35,178 | (1,692) | (4.8)% |
| Passenger revenue excluding fuel surcharges | 27,875 | 31,238 | (3,363) | (10.8)% |
| Fuel surcharges | 5,611 | 3,940 | 1,671 | 42.4% |
| Cargo and mail | 5,358 | 5,486 | (128) | (2.3)% |
| Cargo and mail revenue excluding fuel surcharges | 3,772 | 4,279 | (507) | (11.8)% |
| Fuel surcharges | 1,586 | 1,207 | 379 | 31.4% |
| Others (1) | 2,228 | 1,870 | 358 | 19.1% |
| Total operating revenue | 41,072 | 42,534 | (1,462) | (3.4)% |

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

Note: Pursuant to the 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%. The business tax incurred and set off against the above Company's revenues for the year ended December 31, 2008 amounted to approximately RMB891 million (2007: RMB1,093 million).

Our revenues decreased by 3.4% from RMB42,534 million in 2007 to RMB41,072 million in 2008 (net of the applicable PRC business tax). This decrease was primarily due to a decrease in our passenger revenues, as a result of decreased traffic volume. The decrease in our total revenue was partly offset by the increase of revenue from the cargo and mail operations. In 2008, we transported a total of 37.2 million passengers, representing a decrease of 4.9% from 39.2 million passengers in 2007. Our total passenger traffic (as measured in RPKs) decreased by 5.9% from 57,183 million passenger-kilometers in 2007 to 53,785 million passenger-kilometers in 2008 and our total cargo and mail traffic (as measured in RFTKs) decreased by 7.4% from 2,614 million freight tonne-kilometers in 2007 to 2,420 million freight tonne-kilometers in 2008. Our average yield for our passenger operations remained at RMB0.62 per passenger-kilometer, whereas our average yields for our cargo and mail operations increased by 5.2% from RMB2.1 per tonne-kilometer in 2007 to RMB2.2 per tonne-kilometer in 2008.

This decrease was primarily due to a decline in demand for global air transportation due to the global economic crisis in 2008, as well as a series of natural disasters and unexpected incidents that occurred in China, which weakened the demand for domestic travel and transportation and reduced the incentive for foreign travellers to visit China.

Passenger revenues

Our passenger traffic revenues decreased by RMB1,692 million, or 4.8%, from RMB35,178 million in 2007 to RMB33,486 million in 2008, which accounted for 86.2% of our total traffic revenues in 2008. The decrease was due to a decline in demand for global air transportation due to the global economic crisis in 2008, as well as a series of natural disasters and unexpected incidents that occurred in China, which weakened the demand for domestic travel and transportation and reduced the incentive for foreign travellers to visit China.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 63.9% of our total passenger traffic revenues in 2008, decreased by 1.7% from RMB21,756 million in 2007 to RMB21,389 million in 2008. The decrease was mainly due to a series of catastrophic natural disasters and unexpected incidents, coupled with the increasing impact of the global financial crisis on the PRC economy, which resulted in a rapid decline in demand in the domestic air transportation market. However, because the 2008 Olympic Games and other large-scale events were held in China, the number of passengers carried did not decrease significantly and the passenger-kilometers yield on domestic routes remained the same as last year. Compared to 2007, our domestic passenger traffic (as measured in RPKs) decreased by 0.4%, from 35,492 million tonne-kilometers in 2007 to 35,352 million tonne-kilometers in 2008. The number of passengers carried on domestic routes decreased by 2.4%, from 31.2 million in 2007 to 30.4 million in 2008. Our passenger-kilometers yield for domestic routes remained at RMB0.61 per passenger-kilometer.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues), which accounted for 5.9% of our total passenger traffic revenues in 2008, decreased by 8.4% from RMB2,142 million in 2007 to RMB1,963 million in 2008. This decrease was due to intensified competition and reduced capacity, which led to a decrease of 7.5%, from 3,305 million in 2007 to 3,058 million in 2008, in our Hong Kong, Macau and Taiwan passenger traffic (as measured in RPKs). The number of passengers carried on our Hong Kong, Macau and Taiwan routes decreased by 8.4%, from 2.3 million in 2007 to 2.1 million in 2008. Our passenger-kilometers yield for regional routes decreased from RMB0.65 per passenger-kilometer in 2007 to RMB0.64 per passenger-kilometer in 2008.

Our international passenger traffic revenues, which accounted for 30.3% of our total passenger traffic revenues in 2008, decreased by 10.2% from RMB11,280 million in 2007 to RMB10,134 million in 2008. This decrease was primarily due to a decrease in our international passenger traffic, which resulted from the reduced number of flights on long-distance routes, as well as a decrease in revenue as a result of fluctuations of exchange rates. Our international passenger traffic (as measured in RPKs) decreased by 16.4% in 2008, from 18,386 million in 2007 to 15,375 million in 2008. The number of passengers carried on international routes decreased by 17.2%, from 5.7 million in 2007 to 4.7 million in 2008. Our passenger-kilometers yield for international routes increased from RMB0.61 per passenger-kilometer in 2007 to RMB0.66 per passenger-kilometer in 2008.

Cargo and mail revenues

Our cargo and mail traffic revenues decreased by RMB128 million, or 2.3%, from RMB5,486 million in 2007 to RMB5,358 million in 2008, which accounted for 13.8% of our total traffic revenues in 2008. The signing of the Air Rights Agreement between China and the United States and the Trade in Services Agreement between China and six ASEAN countries in July 2007 removed the restrictions on China's entry into foreign freight markets, which boosted the growth in revenues in the first half of the year. However, the import and export trading demand was largely inhibited due to the global financial crisis in the second half of the year, leading to a decline in traffic volume on principle routes, such as the United States and Europe routes, where the traffic volume decreased by 20% and 11%, respectively, compared to the same period in 2007.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Macau and Taiwan cargo and mail revenues), which accounted for 14.7% of our total cargo and mail traffic revenues in 2008, increased by 32.4% from RMB593 million in 2007 to RMB785 million in 2008. This increase was primarily due to an increase in service charges. Compared to 2007, our domestic cargo and mail traffic (as measured in RFTKs) increased by 2.2%, from 609 million in 2007 to 622 million in 2008. The weight of cargo and mail carried on domestic routes slightly decreased by 0.2%, from 464 million kilograms in 2007 to 463 million kilograms in 2008. Our freight tonne-kilometers yield for domestic routes increased from RMB0.97 per tonne-kilometer in 2007 to RMB1.26 per tonne-kilometer in 2008.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail revenues), which accounted for 9.1% of our total cargo and mail traffic revenues in 2008, decreased by 7.4% from RMB528 million in 2007 to RMB489 million in 2008. This decrease was primarily due to a decrease of 5.9%, from 118 million in 2007 to 111 million in 2008, in our regional cargo and mail traffic (as measured in RFTKs). The amount of cargo and mail carried on our Hong Kong, Macau and Taiwan routes also decreased by 4.9%, from 80 million kilograms in 2007 to 76 million kilograms in 2008. Our freight tonne-kilometers yield for regional routes decreased from RMB4.49 per tonne-kilometer to RMB4.42 per tonne-kilometer.

Our international cargo and mail traffic revenues, which accounted for 76.2% of our total cargo and mail traffic revenues in 2008, decreased by 6.4% from RMB4,364 million in 2007 to RMB4,083 million in 2008, due to a decrease of 11.6% in the weight of cargo and mail carried on international routes from 396 million kilograms in 2007 to 350 million kilograms in 2008. Our freight tonne-kilometers yield for international routes increased from RMB2.31 per tonne-kilometer to RMB2.42 per tonne-kilometer.

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 increased by 19.1% from RMB1,870 million in 2008 to RMB2,228 million in 2009 due to the expansion of our logistics business.

Operating Expenses

The following chart sets forth a breakdown of our operating expenses for the years 2007 and 2008:

| | Year Ended December 31, | | 2008 vs. 2007 | |
|-----------------------------------|-------------------------|---------------|------------------------|--------------------------|
| | 2008 | 2007 | increase (decrease) | % increase (decrease) |
| | (in millions of RMB) | | | |
| Operating Expenses: | | | | |
| Aircraft fuel expenses | 18,488 | 15,117 | 3,371 | 22.3% |
| Takeoff and landing charges | 5,280 | 5,174 | 106 | 2.0% |
| Depreciation and amortization | 4,782 | 4,720 | 62 | 1.3% |
| Salaries and related costs | 4,545 | 4,327 | 218 | 5.0% |
| Office, administration and other | 4,056 | 3,834 | 222 | 5.8% |
| Maintenance costs | 3,273 | 2,392 | 881 | 36.8% |
| Aircraft operating lease expenses | 2,735 | 2,851 | (116) | (4.1)% |
| Impairment losses for assets | 2,977 | 227 | 2,750 | 1,211% |
| Selling and marketing expenses | 1,563 | 1,805 | (242) | (13.4)% |
| Other | 9,129 | 2,447 | 6,682 | 273% |
| Total operating expense | 56,828 | 42,894 | 13,934 | 32.5% |

Our total operating expenses increased by 32.5% from RMB42,894 million in 2007 to RMB56,828 million in 2008 primarily due to a significant increase in aviation fuel expenses, aircraft maintenance expenses, depreciation of assets and losses arising from fair value movements of derivative financial instruments. Our total operating expenses as a percentage of our revenues increased from 100.8% in 2007 to 138.4% in 2008.

Aircraft fuel expenses increased by 22.3% from RMB15,117 million in 2007 to RMB18,488 million in 2008. This increase was primarily due to a substantial increase in the average price of aviation fuel. In 2008, we consumed a total of approximately 2.4 million tonnes of aviation fuel, representing a decrease of 5.5% compared to 2007. Although our weighted average fuel price per tonne in 2008 increased substantially by approximately 28% from 2007, our aircraft fuel expenses accounted for 32.5% of our total operating expenses in 2008, as compared to 35.2% in 2007. Aircraft fuel expenses accounted for 32.5% of our total operating expenses in 2008, as compared to 35.2% in 2007.

Changes in fair value of financial derivatives resulted in a loss of RMB6,401 million, compared to an income of RMB84 million during the same period in 2007. The difference was mainly due to sharp fluctuations in international oil prices in 2008, which plunged rapidly after reaching a historical high in July 2008. In 2008, the fair value movements of financial derivatives charged to the income statement accounted for 11.26% of our total operating costs. As of December 31, 2008, the loss of fair value in our aviation fuel hedging contracts had contributed to the loss of our Company in the amount of approximately RMB6,264 million. See Note 3(a) to our audited consolidated

financial statements for details.

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Take-off and landing charges, which accounted for 9.3% of our total operating expenses in 2008, increased by 2.0% from RMB5,174 million in 2007 to RMB5,280 million in 2008 primarily due to the increase in the number of flights of aircraft with higher take-off and landing charges in 2008. Moreover, the Civil Aviation Airport Charges Reform Implementation Plan, which was issued by the CAAC and NDRC on December 28, 2007 and which became effective on March 1, 2008, substantially increased the level of passenger service fees, which resulted in a considerable increase in the unit charges for aircraft take-off and landing.

Wages, salaries and benefits, which accounted for 8.0% of our total operating expenses in 2008, increased by 5.0% from RMB4,327 million in 2007 to RMB4,545 million in 2008, primarily due to the increase in the number of our employees from 40,477 employees as of December 31, 2007 to 44,153 employees as of December 31, 2008 as we continued to expand our core businesses. However, we experienced a substantial decline in operating performance in 2008 and, accordingly, staff performance bonus payments were reduced compared to the same period in 2007.

Office, administration and other expenses increased by 5.8% from RMB3,834 million in 2007 to RMB4,056 million in 2008 primarily due to the increased expenses relating to our business expansion, including the increase in overseas crew expenses, office expenses, travel expenses, value added tax and custom duties related to operating leases, maintenance expenses and handling fees charged by financial institutions.

Selling and marketing expenses decreased by 13.4% from RMB1,805 million in 2007 to RMB1,563 million in 2008, accounting for 2.8% of our total operating expenses in 2008. The decrease was primarily due to the decrease in agency business handling fees and distribution system service fees as a result of a decrease in the number of passengers carried as well as the decrease in overseas distribution system fees resulting from the depreciation of the U.S. dollar against the Renminbi.

Aircraft operating lease expenses decreased by 4.1% from RMB2,851 million in 2007 to RMB2,735 million in 2008. The decrease was mainly due to the expiry of operating leases of certain aircraft in 2007 and the appreciation of the Renminbi against the U.S. dollar. The number of aircraft operated by us increased from 223 as of December 31, 2007 to 240 as of December 31, 2008. Depreciation and amortization expenses increased by 1.3% from RMB4,720 million in 2007 to RMB4,782 million in 2008 primarily due to the expansion of the scale of our operations and an increase in the number of our aircraft.

Aircraft maintenance expenses, which accounted for 5.8% of our total operating expenses in 2008, increased by 36.8% from RMB2,392 million in 2007 to RMB3,273 million in 2008. This was principally due to an increase in aircraft overhaul expenses, a substantial increase in the number of engines under operating leases sent for overhaul in 2008 compared to the same period in 2007, and an increase in repair and maintenance provisions relating to the surrender of aircraft under operating leases which will expire and be surrendered in 2009.

Impairment losses for assets increased from RMB227 million in 2007 to RMB2,977 million in 2008, mainly attributable to our impairment charge on property, plant and equipment, including certain aircraft models which have relatively lower operational efficiency and which management intends to retire in the near future, as well as provision for goodwill.

Other Operating Income and Other Gains

Our other operating income and other gains were primarily generated from government subsidies and income from disposal of aircraft and relevant assets. The total amount of our other operating income and other gains increased from RMB488 million in 2007 to RMB672 million in 2008 primarily due to income derived from the disposal of aircraft and relevant assets of RMB267 million in 2008. The 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.

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Finance Costs

Our finance costs increased by 17.7% from RMB1,979 million in 2007 to RMB2,328 million in 2008 primarily due to interest expenses of RMB1,945 million on loans from banks and other financial institutions, representing an increase of 19.4% from 2007, offset by interest expense of RMB646 million on finance lease obligations, representing a decrease of 8.0% from 2007. The increase in finance costs was primarily due to an increase in our indebtedness and an increase in interest rates.

Net Profit / (Loss)

As a result of the foregoing operating results, the net loss attributable to equity holders was RMB15,269 million in 2008, as compared to a net profit of RMB379 million in 2007.

Fixed Assets

Our Company had approximately RMB52,678 million of fixed assets as of December 31, 2008, including aircraft, engines and flight equipment.

In view of the decline in demand in the air transportation market under the current economic environment, we performed an impairment test on property, plant and equipment (“PP&E”) as of December 31, 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft models and related equipment which reflects their relatively lower operational efficiency and management’s intention to retire these aircraft in the near future. See Note 10 to our audited consolidated financial statements for details. In determining the recoverable amounts of the related assets, management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values.

B. Liquidity and Capital Resources

We typically finance our working capital requirements through a combination of funds generated from operations and short-term bank loans. 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, 2008 and 2009, we had cash and cash equivalents of RMB3,451 million and RMB1,735 million, respectively.

As of December 31, 2009, our accumulated losses amounted to approximately RMB17.9 billion. In addition, our current liabilities exceeded our current assets by approximately RMB28.7 billion, while our total assets exceeded total liabilities by approximately RMB1.7 billion. As a consequence, our directors have taken active steps to seek additional sources of finance to improve our liquidity position. We had credit facilities of RMB50.9 billion from certain banks as of December 31, 2009. See the discussion below under “–Working Capital and Liabilities”.

Cash Flows from Operating Activities

In 2009, we generated a net cash inflow from operating activities of RMB3,429 million as a result of our cash generated from operations of RMB3,507 million less income tax we paid in 2009. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB3,261 million and changes in working capital of RMB247 million. The operating profit before working capital changes of RMB3,260 million was a result of the profit before income tax of RMB249 million, mainly adjusted for (i) depreciation of property, plant and equipment of RMB5,177 million, (ii) interest expenses of RMB1,755 million, (iii) provision for return condition checks for aircraft and engines under operating leases of RMB588.7 million and (iv) provision for post-retirement benefits of RMB440.9 million, partly offset by unrealized gains arising from fair value movements of financial

derivatives of RMB5,334 million. Changes in working capital mainly consisted of the (i) increase in trade payables and notes payables of RMB1,021 million, (ii) increase in prepayments, deposits and other receivables of RMB540 million, and (iii) increase in sales in advance of carriage of RMB406 million, partly offset by the (i) decrease in other payables and accrued expenses of RMB482 million, (ii) decrease in flight equipment and spare parts of RMB466 million and (iii) decrease in provision for return condition checks for aircraft and engines under operating leases of RMB275 million.

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In 2008, we generated a net cash inflow from operating activities of RMB2,856 million as a result of our cash generated from operations of RMB2,942 million less income tax we paid in 2008. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB112 million and changes in working capital of RMB2,831 million. The operating profit before working capital changes of RMB112 million was a result of the loss before income tax of RMB15,256 million, mainly adjusted for (i) loss arising from fair value movements of derivative financial instruments of RMB6,401 million, (ii) depreciation of property, plant and equipment of RMB4,756 million, (iii) impairment loss of RMB2,977 million and (iv) interest expenses of RMB2,328 million, partly offset by net foreign exchange gains of RMB1,971 million. Changes in working capital mainly consisted of the (i) decrease in flight equipment spare parts of RMB529 million, (ii) increase in other long-term liabilities of RMB432 million, (iii) decrease in amounts due from related parties of RMB223 million, and (iv) decrease in prepayments, deposits and other receivables of RMB217 million, partly offset by the (i) increase in trade payables and notes payables of RMB2,007 million, (ii) increase in other payables and accrued expenses of RMB1,902 million, and (iii) increase in trade receivables of RMB910 million.

In 2007, we generated a net cash inflow from operating activities of RMB3,080 million as a result of cash generated from operations of RMB3,143 million less income tax we paid in 2007. Our cash generated from operations of RMB3,143 million was mainly due to operating profit before working capital changes of RMB5,996 million and changes in working capital of RMB2,853 million. The operating profit before working capital changes of RMB5,996 was a result of the profit before income tax of RMB378 million, mainly adjusted for: (i) depreciation of property, plant and equipment of RMB4,695 million, and (ii) interest expenses of RMB1,978 million, partly offset by net foreign exchange gains of RMB2,023 million. Changes in working capital mainly consist of the (i) decrease in flight equipment spare parts of RMB409 million, (ii) decrease in trade receivables of RMB479 million, and (iii) decrease in prepayments, deposits and other receivables of RMB337 million, partly offset by the (i) increase in amounts due from related parties of RMB350 million, and (ii) increase in sales in advance of carriages of RMB320 million.

Cash Flows from Investing Activities

In 2009, our net cash outflow from investing activities was RMB7,236 million. Our net cash outflow from investing activities mainly consisted of (i) additions of property, plant and equipment of RMB5,685 million, primarily due to the purchase of 17 new aircraft and (ii) advanced payments on acquisition of new aircraft of RMB1,927 million, partly offset by (i) proceeds from disposal of interests in an associate of RMB210 million and (ii) interest received of RMB110 million.

In 2008, our net cash outflow from investing activities was RMB925 million. Our net cash outflow from investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB3,604 million and (ii) additions of property plant and equipment of RMB1,289 million, partly offset by (i) refunds of advanced payments upon deliveries of aircraft of RMB2,422 million and (ii) proceeds from the disposal of property, plant and equipment of RMB1,856 million.

In 2007, our net cash outflow from investing activities was RMB1,756 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB3,737 million and (ii) additions of property, plant and equipment of RMB1,592 million, partly offset by the refund of advanced payments upon delivery of aircraft of RMB3,065 million.

Cash Flows from Financing Activities

In 2009, our net cash inflow from financing activities was RMB2,086 million. Our net cash inflow from financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB28,537 million, (ii) proceeds from the issuance of new shares of RMB14,056 million and (iii) proceeds from draw down of long-term bank loans of 10,823 million, partly offset by (i) repayments of short-term bank loans of 39,535 million and (ii) repayments of long-term bank loans of 9,522 million. Proceeds from the issuance of new shares in 2009 were used to repay a portion of our bank loans.

In 2008, our net cash outflow from financing activities was RMB92 million. Our net cash outflow from financing activities mainly consisted of (i) repayments of short-term bank loans of RMB19,987 million, (ii) repayments of long-term bank loans of RMB3,923 million, (iii) interest paid of RMB2,742 million and (iv) principal repayments of finance lease obligations of RMB2,594 million, partly offset by (i) proceeds from draw down of short-term bank loans of RMB25,403 million and (ii) proceeds from draw down of long-term bank loans of RMB4,748 million.

In 2007, our net cash outflow from financing activities was RMB1,640 million. Our net cash outflow for financing activities mainly consisted of (i) repayments of short-term bank loans of RMB16,020 million, (ii) repayments of long-term bank loans of RMB2,985 million, (iii) principal repayments of finance lease obligations of RMB2,975 million and (iv) interest paid of RMB2,241 million, partly offset by (i) proceeds from draw down of short-term bank loans of RMB18,465 million and (ii) proceeds of draw down of long-term bank loans of RMB3,383 million.

Working Capital and Liabilities

We generally operate with a working capital deficit. As of December 31, 2009, our current liabilities exceeded our current assets by RMB28,648 million. In comparison, our current liabilities exceeded our current assets by RMB43,458 million as of December 31, 2008. The decrease in our current liabilities in 2009 was primarily due to the decrease in the current portion of borrowings and a decrease in derivative liabilities, partially offset by an increase in the current portion provision for return condition checks for aircraft and engines under operating leases. The decrease in our current assets in 2009 was primarily due to a decrease in cash and cash equivalents used to repay certain long-term liabilities. Short-term loans outstanding totaled RMB19,474 million and RMB8,407 million as of December 31, 2008 and 2009, respectively. Long-term outstanding bank loans totaled RMB15,628 million and RMB16,928 million as of December 31, 2008 and 2009, respectively.

Our consolidated interest-bearing borrowings as of December 31, 2008 and 2009 for the purpose of calculating the indebtedness of our Company, were as follows:

| | As of December 31 | |
|----------------------|-------------------|--------|
| | 2008 | 2009 |
| | (RMB million) | |
| Secured bank loans | 5,768 | 8,789 |
| Unsecured bank loans | 29,333 | 16,546 |
| Total | 35,101 | 25,335 |

The maturity profile of interest-bearing borrowings of our Company as of December 31, 2008 and 2009 was as follows:

| | As of December 31 | |
|--------------------------------------|-------------------|--------|
| | 2008 | 2009 |
| | (RMB million) | |
| Within one year | 26,513 | 12,330 |
| In the second year | 4,148 | 2,714 |
| In the third to fifth year inclusive | 3,665 | 6,166 |
| After the fifth year | 775 | 4,125 |
| Total | 35,101 | 25,335 |

As of December 31, 2009, our interest rates relating to short-term borrowings ranged from 0.3% to 7.5%, while our fixed interest rates on our interest-bearing borrowings for long-term bank loans ranged from 4.4% to 7.0%. Our bank loans are denominated in Renminbi, U.S. dollars and Euro. As of December 31, 2009, our total bank loans denominated in Renminbi amounted to RMB12,064 million, our total bank loans denominated in U.S. dollars amounted to RMB13,157 million, while our total bank loans denominated in Euro amounted to RMB113 million. See Note 31 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 our financial position and leverage and credit ratings, as well as by prevailing economic conditions and the cost of financing generally. If we are unable to obtain financing 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.

We have, and in the future may continue to have, substantial debts. As of December 31, 2009, our long-term debt to equity ratio was 20.7. 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.

Capital Expenditures

As of December 31, 2009, according to the contracted agreements, we expect our capital expenditures for aircraft, engines and related equipment to be in aggregate approximately RMB74,161 million, including RMB10,480 million in 2010 and RMB11,082 million in 2011, in each case subject to contractually stipulated increases or any increase relating to inflation and exclusive of capital expenditure requirements for Shanghai Airlines. 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, 2009 to December 31, 2009 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.

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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, 2009:

| Contractual Obligations | Payments Due by Period (RMB millions) | | | | |
|---|--|---------------------|-----------|-----------|----------------------|
| | Total | Less Than 1 Year | 1-2 Years | 2-5 Years | More Than 5 Years |
| Long-Term Debt | 16,927 | 3,923 | 2,714 | 6,166 | 4,124 |
| Capital Leases | 19,370 | 2,125 | 2,094 | 6,785 | 8,366 |
| Operating Leases | 15,190 | 2,558 | 2,026 | 4,803 | 5,803 |
| Unconditional Purchase Obligations | 74,161 | 10,481 | 11,082 | 48,780 | 3,818 |
| Other Long-term Obligations (1) | 1,203 | — | — | — | — |
| Post-retirement Benefit Obligations (1) | 1,850 | — | — | — | — |
| Deferred Tax Liabilities (1) | 52 | — | — | — | — |
| Short-term Bank Loans | 8,407 | 8,407 | — | — | — |
| Interest Obligations | 3,248 | 897 | 756 | 977 | 618 |
| Under Finance Lease | 1,642 | 341 | 295 | 620 | 386 |
| Under Bank Loans | 1,606 | 556 | 461 | 357 | 232 |
| Fixed Rate | 5 | 2 | 1 | 1 | 1 |
| Variable Rate (2) | 1,601 | 554 | 460 | 356 | 231 |
| Total | 140,408 | 28,391 | 18,672 | 67,511 | 22,729 |

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

(2) For our variable rate loans, interest rates range from 3 months LIBOR + 0.25% to 6 months LIBOR + 1%. Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2009. A 25 basis points increase in the interest rate would increase interest expenses by RMB51 million.

| Other Commercial Commitments | Total | Amount of Commitment Expiration Per Period | | | |
|--------------------------------|----------------------------------|--|-----------|-----------|---------------|
| | Amounts Committed (RMB millions) | (RMB millions) Less Than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Lines of Credit | 50,865 | 20,300 | 24,251 | 6,314 | — |
| Standby Letters of Credit | — | — | — | — | — |
| Guarantees | — | — | — | — | — |
| Standby Repurchase Obligations | — | — | — | — | — |
| Other Commercial Commitments | — | — | — | — | — |
| Total | 50,865 | 20,300 | 24,251 | 6,314 | — |

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions.

Our audited consolidated financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set forth in Note 2 to our audited consolidated financial statements. IFRS requires that we adopt the accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial position. However, different policies, estimates and assumptions in critical areas could lead to materially different results. The critical accounting policies adopted and estimates made in the preparation of these financial statements are identified as follows:

Estimated impairment of property, plant and equipment and intangible assets

We test whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2(m) to the financial statements. The recoverable amounts of cash generating units is the higher of fair value less costs to sell and value-in-use. The calculation of value-in-use using 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.

Revenue recognition

We recognize passenger, cargo and mail 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 sales in advance of carriage account (“SIAC”) and records any adjustments, which can be material, in the period the evaluation is completed.

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

We operate a frequent flyer program called “Eastern Miles” that provides 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. The deferment of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilization of these benefits. Any remaining unutilized benefits are recognized as deferred revenue.

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Depreciation of components related to overhaul costs

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

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

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

Retirement benefits

We operate and maintain 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(w) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of our Company. Additional information regarding the retirement benefit plans is disclosed in Note 35 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, we consider future taxable income and ongoing prudent and feasible tax planning strategies. In the event that our 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 our 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.

Useful lives of property, plant and equipment

We determine the estimated useful lives and related depreciation charges for the Company's property, plant and equipment. This estimate is based on the historical experience of the actual lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to sever industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Foreign Currency Transactions

We have debts denominated in U.S. dollars, Japanese yen or Euro in addition to our debts denominated in Renminbi. We generate a significant amount of foreign currency revenues, including U.S. dollar, Japanese yen, Euro, Korean won, Hong Kong dollar, Singapore dollar, Australian dollar, and Thailand baht revenues, from ticket sales made in overseas offices. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings subject to the approval of SAFE. We have also designated certain personnel to manage the foreign currency risks through derivative financial products such as forward foreign exchange contracts. In addition, we use currency 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, 2009, the notional amount of the outstanding currency forward contracts which are still open was approximately US\$82 million, compared to US\$121 million as of December 31, 2008. These currency forward contracts will expire between 2010 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 the People's Bank of China. The net exchange gains or losses are recognized and reflected in the income statement for the relevant year. We recorded a decrease in net exchange gains from RMB1,958 million as of December 31, 2008 to RMB49 million as of December 31, 2009. Due to the large value of existing net foreign currency liabilities, our results may 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.

Taxation

We had carried forward tax losses of approximately RMB12,586 million as of December 31, 2009, which can be used to set off against future taxable income between 2010 and 2014.

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, 2009, the corporate income tax rate applicable to the Company and these subsidiaries was 20%. The net deferred tax position of the Company and its subsidiaries as of December 31, 2009 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 not experienced significant inflation and in 2009, inflation did not have a significant effect on our business. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was up approximately 5.9% in 2008 and down 0.7% in 2009. 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, 2010 or later periods. We are still assessing the impact of these new/revised standards and interpretations in detail.

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective from July 1, 2009)

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- IAS 27 (revised), ‘Consolidated and separate financial statements’ (effective from July 1, 2009)
 - IFRS 3 (revised), ‘Business combinations’ (effective from July 1, 2009)
 - IAS 38 (amendment), ‘Intangible Assets’ (effective from July 1, 2009)
- IFRS 5 (amendment), ‘Measurement of non-current assets (or disposal groups) classified as held for sale’
 - IAS 1 (amendment), ‘Presentation of financial statements’
 - IFRS 9, ‘Financial Instruments’ (effective from January 1, 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.

| Name | Age | Shares Owned(1) | Position |
|----------------------|-----|-----------------|---------------------------------------|
| Liu Shaoyong(2) | 51 | 0 | Chairman of the Board of Directors |
| Li Jun | 57 | 0 | Vice Chairman |
| Ma Xulun (3) | 46 | 0 | Director and President |
| Luo Chaogeng | 60 | 6,600 A Shares | Director |
| Luo Zhuping | 56 | 11,616 A Shares | Director and Company Secretary |
| Wu Baiwang | 66 | 0 | Independent Non-executive Director |
| Xie Rong | 57 | 0 | Independent Non-executive Director |
| Sandy Ke-Yaw Liu (7) | 62 | 0 | Independent Non-executive Director |
| Wu Xiaogen (10) | 43 | 0 | Independent Non-executive Director |
| Ji Weidong (11) | 52 | 0 | Independent Non-executive Director |
| Liu Jiangbo | 60 | 0 | Chairman of the Supervisory Committee |
| Xu Zhao | 41 | 0 | Supervisor |
| Yan Taisheng (4) | 56 | 0 | Supervisor |
| Feng Jinxiong (5) | 48 | 0 | Supervisor |
| Liu Jiashun | 52 | 3,960 A Shares | Supervisor |
| Zhang Jianzhong | 55 | 0 | Vice President |
| Li Yangmin | 47 | 3,960 A Shares | Vice President |
| Zhao Jinyu (8) | 53 | 0 | Vice President |
| Tang Bing (9) | 43 | N/A | Vice President |
| Wu Yongliang (6) | 47 | 3,696 A Shares | Chief Financial Officer |

(1)

As of the year ended December 31, 2009.

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- (2) Mr. Liu Shaoyong has served as Chairman of our Company since February 3, 2009.
- (3) Mr. Ma Xulun has served as Director of our Company since February 3, 2009 and President of our Company since December 12, 2008.
- (4) Mr. Yan Taisheng has served as Supervisor of our Company since March 26, 2009.
- (5) Mr. Feng Jinxiong has served as Supervisor of our Company since March 26, 2009.
- (6) Mr. Wu Yongliang has served as Chief Financial Officer of our Company since March 31, 2009.
- (7) Mr. Sandy Ke-Yaw Liu has served as an Independent Non-executive Director since June 13, 2009.
- (8) Mr. Zhou Jinyu has served as Vice President of our Company since December 23, 2009.
- (9) Mr. Tang Bing has served as Vice President of our Company since February 1, 2010.
- (10) Mr. Wu Xiaogen has served as an Independent Non-executive Director of our Company since March 19, 2010.
- (11) Mr. Ji Weidong has served as an Independent Non-executive Director of our Company since March 19, 2010.

On February 3, 2009, during the extraordinary general meeting, the shareholders of our Company approved the resignation of Mr. Li Fenghua as the Chairman and director of our Company and approved the appointment of Mr. Liu Shaoyong as director to the fifth session of the Board of our Company. The shareholders of our Company also approved the termination of office of Cao Jianxiong as director of our Company, and approved the appointment of Mr. Ma Xulun as director of our Company.

On March 26, 2009, during the 2009 first group meetings of the 5th meetings of the 4th session employee's representatives conference, the employee representatives of our Company approved the termination of Ms. Wang Taoying, due to her retirement, and Ms. Yang Jie, due to her relocation of appointment, as the employee representative supervisors of our Company and further elected Mr. Yan Taisheng and Mr. Feng Jinxiong as employee representative supervisors of the fifth session of the supervisory committee of our Company. On March 31, 2009, during the meeting of the fifth session of the Board, the Directors of our Company approved the resignation of Mr. Luo Weide as the Chief Financial Officer of our Company and approved the appointment of Mr. Wu Yongliang as the Chief Financial Officer of our Company.

On June 13, 2009, during the annual general meeting, the shareholders of our Company approved the resignation of Mr. Peter Lok as independent non-executive director and the appointment of Mr. Sandy Ke-Yaw Liu as an independent non-executive director of the Company.

On December 23, 2009, during the 33rd meeting of the fifth session of the Board, the Directors approved the appointment of Mr. Zhao Jinyu as a Vice President of our Company.

On February 1, 2010, during the 35th meeting of the fifth session of the Board, the Directors approved the appointment of Mr. Tang Bing as a Vice President of our Company.

On March 19, 2010, during the extraordinary general meeting, the shareholders of the Company approved the appointment of Mr. Wu Xiaogen and Mr. Ji Weidong as independent non-executive directors of the fifth session of the Board. On the same day, March 19, 2010, during the 33rd meeting of the fifth session of the Board, the resignations

of Mr. Honggao and Mr. Zhou Ruijin, independent non-executive directors of the Company, became effective.

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On May 6, 2010, during the 37th regular meeting of the fifth session of the Board of our Company, the Directors approved the resignation of Mr. Fan Ru as a Vice President of the Company due to his retirement.

Directors

Mr. Liu Shaoyong has served as Chairman of our Company since February 2009. He is currently a deputy party secretary and general manager of CEA Holding. Mr. Liu joined the civil aviation industry in 1978. He held the positions of Captain of the Flying Squadron of China General Aviation Corporation and was appointed as the Deputy General Manager of China General Aviation Corporation and Deputy Director of Shanxi Provincial Civil Aviation Administration. He also served as the General Manager of the Shanxi branch of the Company and as the Chief of the Flying Model Division of the Civil Aviation Administration of China. He was the General Manager of the Company from December 2000 to October 2002. From October 2002 to August 2004, he was appointed as the Vice Minister of Civil Aviation Administration of China. From August 2004 to December 2008, Mr. Liu has served as the General Manager of China Southern Air Holding Company and from November 2004 to December 2008, he has served as Chairman of directors of China Southern Airlines Company Limited. He served as Deputy Party Secretary and General Manager of CEA Holding since December 2008. Mr. Liu graduated from China Civil Aviation Flying College. He has obtained a master degree in executive business administration from Tsinghua University in 2005. He is a qualified First Class Pilot. Mr. Liu is the Director General of China Air Transport Association, a director of International Air Transport Association and a director of Association for Relations Across the Taiwan Straits.

Mr. Li Jun has served as the Vice Chairman of the Board of our Company since 2007. He also serves as a party secretary of CEA Holding. Mr. Li joined the civil aviation industry in 1972. Since 1977, Mr. Li served as officer in the Political Department and office secretary of CAAC. Mr. Li served as person-in charge of Policy Research Department in the Civil Aviation Bureau in 1984, deputy director of Policy Research Department in the Civil Aviation Bureau in 1986, deputy manager of Planning Department in CAAC in 1989, manager of Planning Department in CAAC in 1994, director of the General Office in CAAC in 1996, manager of Personnel Education Department in CAAC in 2000, and deputy head and party committee member of CAAC in 2001. Since 2006, Mr. Li has served as party secretary of CEA holding. Mr. Li graduated from the Party School of the Central Committee of the C.P.C. He holds a bachelor degree in Economic Management and is a qualified Economist.

Mr. Ma Xulun has served as a Director of our Company since February 2009 and President of our Company since December 12, 2008. He is currently a deputy party secretary of CEA Holding, executive director, Deputy Party Secretary and General Manager of the Company. Mr. Ma joined the civil aviation industry in 1997. He used to serve as Deputy General Manager of China Commodities Storing and Transportation Corporation, Deputy Director General of Financial Department of CAAC, and Vice President of Air China. After the restructuring of the China civil aviation industry in 2002, he became the Vice President of the general affairs of Air China. From September 2004 to January 2007, he became the President and Deputy Party Secretary of Air China. From December 2004 to December 2008, he was a Party member of China National Aviation Holdings Company. From January 2007 to December 2008, he was Deputy General Manager of China National Aviation Holding Company. Since December 2008, he has served as Deputy Party Secretary of CEA Holding, Deputy Party Secretary and General Manager of the Company. Mr. Ma graduates from Shanxi University of Finance and Economics and Huazhong University of Science and Technology. Mr. Ma has a master degree and is a qualified accountant.

Mr. Luo Chaogeng has served as a Director of our Company since 2005. Mr. Luo joined the civil aviation industry in 1970. Mr. Luo was a flight mechanic of the instructing team of the Lanzhou Civil Aviation Administration Bureau from August 1970 to August 1972. From August 1972 to March 1989, he was the flight mechanic of the 8th Civil Aviation Flight Team. From March 1989 to August 1994, he was the deputy commissar, commissar and party secretary of the Xian Flight Team of China Northwest Airlines. From August 1994 to October 1997, he was the party secretary of the aircraft maintenance plant of China Northwest Airlines. From October 1996 to March 1997, he was the party secretary and deputy general manager of the aircraft maintenance base of China Northwest Airlines. From March 1996 to December 2000, he was the deputy director of the Civil Aviation Administration Bureau of China Northwest Airlines. From December 2000 to November 2001, Mr. Luo was the general manager of Yunnan Airlines and the director and deputy party secretary of Civil Aviation Administration Bureau of Yunnan. From November 2001 to September 2002, he was the general manager and deputy party secretary of Yunnan Airlines. From September 2002 to September 2004, he also served concurrently as the general manager of Yunnan Airlines. From September 2004 to the present, he has been the party constitution member and vice president of China Airlines Group Company, and from September 2004 to October 2006, he served as president and deputy party secretary of China Airlines Corporation Limited. From September 1998 to June 2001, Mr. Luo studied a postgraduate course for incumbent leading cadres in professional economics and management at the Central Party School of Shaanxi. Mr. Luo has obtained first class competency in flight mechanics.

Mr. Luo Zhuping has served as a Director of our Company since 2004 and the secretary of our Board of Directors since 1997. Mr. Luo joined CEA in 1988. He was deputy chief and then chief of the enterprise management department of China Eastern Airlines from 1992 to 1997. He was deputy head of the share system office from 1993 to 1996. In 1997, he became the secretary of our Board of Directors and, from 1997 to 2008, he also served as the head of the secretariat of our Board of Directors. He became a Director of our Company in June 2004. Mr. Luo graduated from the Faculty of Philosophy and the Faculty of Law of Anhui University in 1979 and 1985, respectively. In 1994, Mr. Luo received a Master's degree from the Economics Department of Eastern China Normal University, majoring in global economics. In 1998, he participated in the training program for senior managers of large state-owned enterprises organized in the U.S.A. by the State Economic and Trade Commission and Morgan Stanley.

Mr. Wu Baiwang has served as an independent non-executive Director of our Company since 1998. Mr. Wu joined the civil aviation industry in 1959 and was deputy fleet leader and subsequently became fleet leader of the 12th Fleet of the CAAC from 1976 to 1984. From 1984 to 1992, Mr. Wu was deputy head and subsequently became head of the CAAC Jilin Bureau. From 1992 to 1995, Mr. Wu was head and party secretary of the CAAC Northeastern Bureau. From September 1995 to 1998, he became president of China General Aviation Corporation. He was the party secretary and vice-president of Guangzhou Baiyun International Airport Group Company and the Chairman of the board of directors of Guangzhou Baiyun International Airport Company Limited from 1998 to September 2003. Mr. Wu graduated from Chinese Civil Aviation School in 1965 and holds the title of First Class Pilot.

Mr. Xie Rong has served as an independent non-executive Director of our Company since 2003. Mr. Xie is a certified accountant in the People's Republic of China and the deputy head of Shanghai National Accounting Institute. He taught at the faculty of accounting of Shanghai University of Finance and Economics from December 1985 to March 1997, and had been an assistant professor, a professor, a doctorate-tutor and the deputy dean of the faculty. Mr. Xie was a partner of KPMG Huazhen from December 1997 to October 2002, and has been the deputy head of Shanghai National Accounting Institute since October 2002. Mr. Xie graduated from Shanghai University of Finance and Economics and has a doctorate degree in Economics. He is also experienced in business management.

Mr. Sandy Ke-Yaw Liu has served as an independent non-executive Director of our Company since June 2009. Mr. Liu has worked in the civil aviation industry in Taiwan since 1969. He served in several roles at China Airlines, including as Airport Manager at the 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

respectively in its Corporate Office Taiwan. He also served as Vice President for Marketing and Sales in 1993 and Executive Vice President for commercial affairs since 1996, and was promoted to President in 1998. Additionally, Mr. Liu had served on the Board of Directors for Taiwan Mandarin Airlines, Taiwan Far Eastern Air Transport, Taiwan China Pacific Catering Service, Taiwan Taoyuan International Airport Service Company and served as Chairman of the Board of Taiwan Air Cargo Terminal. In 2001, he moved to Hong Kong to join Expeditors International of Washington, Inc. a global logistics company as the Chief Operating Officer for the Asia Region. Mr. Liu graduated from Taipei's Shih-Shin University and attended advanced study programs at Stanford University in the United States in 1990 and 1993 respectively.

Mr. Wu Xiaogen has served as an independent non-executive Director of our Company since March 2010. He is the chief accountant of China First Heavy Industries and holds the title of researcher. Mr. Wu was the assistant to the general manager and the deputy general manager of the securities business department of China Jingu International Trust Investment Company Limited from April 1998 to March 1999, the deputy general manager of the securities management department and the general manager of the institutional management department of China Technology International Trust Investment Company from March 1999 to July 2000, and the head of the audit teaching and research unit and the vice president of the School of Accountancy of Central University of Finance and Economics from July 2000 to November 2004. He has been the chief accountant of China First Heavy Industries since November 2004. Mr. Wu graduated from the Department of Economics and Management of Central University of Finance and Economics in 1997 and obtained a doctoral degree in Economics.

Mr. Ji Weidong has served as an independent non-executive Director of our Company since March 2010. He is currently the dean and the professor of Koguan Law School of Shanghai Jiaotong University and an honorary professor of Kobe University, Japan. Mr. Ji graduated from the Department of Law of Peking University in 1983 and obtained a bachelor's degree in law. Mr. Ji completed his master's and doctoral degree courses at the graduate school of Kyoto University, Japan from April 1985 to March 1990. From September 1991 to July 1992, he was a visiting scholar at Stanford Law School, in the United States. He obtained his doctoral degree in law from Kyoto University, Japan in January 1993. From April 1990 to September 1996, Mr. Ji was an associate professor at the School of Law of Kobe University, Japan. From October 1996 to March 2009, he was a professor at the School of Law of Kobe University, Japan. Since 2008, he has been the dean and professor of Koguan Law School of Shanghai Jiaotong University.

Supervisory Committee

As required by the PRC Company Law and our articles of association, our Company has a supervisory committee, or 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.

Ms. Liu Jiangbo has served as the Chairman of the supervisory committee of our Company (the "Supervisory Committee") since 2007, and is also a party member, vice president, and the head of disciplinary inspection group of CEA holding. Ms. Liu Jiangbo joined the civil aviation industry in 1979. Since then, Ms. Liu had been an officer in the Beijing Administrative Bureau of Civil Aviation of China and the deputy secretary of the committee of C.P.C. of the transportation business division. Ms. Liu served as secretary of the committee of the Communist Youth League of the National Civil Aviation in 1985, deputy director of the personnel department of the Traffic Control Bureau of the Aviation of China in 1987, supervisor to the Civil Aviation Administration of China appointed by the Supervisory Bureau of China in 1990, deputy director of the transportation division of CAAC in 1994, secretary of the committee of C.P.C. and vice president of Yunnan Airlines Corporation Limited in 2000, and the party member, vice president and head of the disciplinary examination committee of CEA holding in 2002. Ms. Liu graduated from the Graduate School of Chinese Academy of Social Sciences, majoring in business management of industrial economics, having the qualification of post-graduate and senior political work instructor.

Mr. Xu Zhao has served as a Supervisor of our Company since 2007, and the chief accountant of CEA holding. Mr. Xu joined the civil aviation industry in 2007. Mr. Xu served as engineer and accountant in Dongfeng Motor Group Company Limited in 1991 and 1997 respectively, Mr. Xu joined Shanghai Yanhua High Technology Limited Company as a manager in finance department in 2000, and joined Shaanxi Heavy Duty Automobile Co. Limited as a chief financial officer in 2002. Since January 2007, Mr. Xu has served as the chief accountant in CEA holding. Mr. Xu graduated from Chongxing University, majoring in moulding, and The Chinese University of Hong Kong, majoring in accounting, and holds a master degree. Mr. Xu is qualified as an engineer and an accountant, and is a certified public accountant in the PRC.

Mr. Yan Taisheng is currently a Supervisor and the Vice Chairman of the Labor Union of our Company. Mr. Yan joined the civil aviation industry in 1973, and has served in the Command Centre and the General Office of Shanghai Civil Aviation Administration Bureau. From 1990 to 1993, he served as the Chief of the Secretarial Section in the General Office of China Eastern Airlines Company. He served as the Manager of Shanghai Civil Aviation Dong Da Industry Company from 1993 to 1998 and was the Deputy Director of General Office of the Labor Union of the Company from 1998 to 2002. From 2002 to 2005, he served as the Director of General Office of Labor Union of the Company. He has been the Vice Chairman of the Labor Union and the Director of the General Office of the Labor Union of the Company since 2005. Mr. Yan graduated from East China Normal University.

Mr. Feng Jinxiong is currently a Supervisor and general manager of Audit Department of our Company. Mr. Feng joined the civil aviation industry in 1982, and has served in the Planning Department of Shanghai Civil Aviation Administration Bureau as well as the Planning Department of China Eastern Airlines Company. He served as the Deputy Director of the Planning Department of China Eastern Airlines Company from 1992 to 1997, the Director of the Planning Department of our Company from 1997 to 1998, the Director of the Finance Department of China Eastern Air Holding Company from 1998 to 2000. He was the Deputy Chief Accountant of China Eastern Air Holding Company from 2000 to 2001, the Manager of the Human Resources Department of our Company from 2001 to 2003, the Party Committee Secretary and Vice President of China Eastern Air Jin Rong Company from 2003 to 2005, the Party Committee Secretary and Deputy General Manager of the Shanghai Security Department of our Company from 2005 to 2007, as well as the President and the Deputy Party Committee Secretary of the China Eastern Airlines Wuhan Co., Ltd. from 2007 to 2009. Since February 2009, he has been the General Manager of the Audit Department of our Company. Mr. Feng graduated from the Civil Aviation University of China and the Graduate School of the Chinese Academy of Sciences, holding a master's degree.

Mr. Liu Jiashun is currently a Supervisor of our Company. From 1993 to 1999, Mr. Liu was a 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. From 1997 to 1999, 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 Industrial Co., Ltd. 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 has been the general manager of Shanghai Puhang Oil Co., Ltd. since 2006. Mr. Liu received post-graduate education and is qualified as a senior political work instructor.

Senior Management

Mr. Zhang Jianzhong has served as a Vice President of our Company since 2004. Mr. Zhang joined the civil aviation industry in 1982. From April 1982 to December 1987, he was an assistant of the Shanghai Civil Aviation Planning Bureau. From December 1987 to April 1990, he was the deputy director of the planning department of Shanghai Hongqiao International Airport. From April 1990 to January 1996, he was the director of the planning department of China Eastern Airlines. From January 1996 to April 1999, he was the manager of the sales and marketing department of our Company. From April 1999 to April 2003, he was the Assistant to the President of our Company. From September 2000 to December 2001, he served concurrently as the director of the office of strategic study of our Company. From December 2001 to May 2003, he served concurrently as the general manager of the computer information centre of our Company. From April 2003 to June 2004, he was the chief economic official of our Company. From May 2003 to June 2004, he served concurrently as the general manager of the sales and marketing department of our Company. Mr. Zhang graduated from the Faculty of Mechanical Engineering of Zhejiang University and Professional Study in Economics and Management at Fudan University, where he obtained his master's degree.

Mr. Li Yangmin has served as a Vice President and deputy general manager of our Company since 2005. Mr. Li joined the civil aviation industry in 1985. From July 1985 to October 1996, he was the deputy head of the aircraft maintenance workshop, head of technology office and secretary of the workshop branch of Northwest Company. From October 1996 to June 2002, he was the deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company. From June 2002 to March 2004, he was the general manager of the aircraft maintenance base of China Eastern Air Northwest Company. From March 2004 to October 2005, he was the vice president and a member of the standing committee to the party committee of China Eastern Air Northwest Company. Mr. Li graduated from China Civil Aviation Academy. He is a qualified senior engineer.

Mr. Zhao Jinyu is currently the General Manager and Deputy Party Secretary of the Yunnan Branch of the Company. He joined the civil aviation industry in 1978. From November 1995 to March 1998, he was a deputy director and director of the Flying Safety and Technology Department of China General Aviation Corporation. From March 1998 to May 1999, he was the General Manager of the Flying Aviation Department of the Shanxi Branch of the Company. From May 1999 to January 2000, he was the Vice President of the Shanxi Branch of the Company. From January 2000 to January 2004, he was the General Manager of the Hebei Branch of the Company. From January 2004 to May 2008, he was the General Manager and Deputy Party Secretary of the Anhui Branch of the Company. From May 2008 to July 2008, he was the Managing Vice President and Deputy Party Secretary of the Yunnan Branch of the Company. Since July 2008, he has been the General Manager and Deputy Party Secretary of the Yunnan Branch of the Company. Mr. Zhao graduated from the Civil Aviation Flight University of China for professional flying and holds the title of Second Class Pilot.

Mr. Tang Bing is currently a Vice President of our Company and a member of the Standing Committee to the Party Committee of the Company. Mr. Tang joined the civil aviation industry in 1993. From April 1997 to October 1999, he served as a deputy manager of the Engineering Technology Division under the Aircraft Engineering Department of China Southern Airlines Company Limited. From October 1999 to May 2003, he was the deputy director of the Business Development Department of Guangzhou Aircraft Maintenance Engineering Co., Ltd., and the vice director of its Accessories Business Centre. From June 2003 to December 2005, he was vice president of MTU Maintenance Zhuhai Co., Ltd. From December 2005 to March 2007, he served as the office director of China Southern Airlines Company Limited. From March 2007 to December 2007, he was the president and vice party secretary of Chongqing Airlines Company Limited. From December 2007 to May 2009, he served as the chief engineer and general manager and a deputy party secretary of the Aircraft Engineering Department of China South Airlines. From May 2009 to December 2009, he was appointed as the general manager and deputy party secretary of the Beijing branch of the Company. Since May 2009, he has been served a member of the Standing Committee to the Party Committee of the

Company. 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 in 2003 and an executive master of business administration (EMBA) degree from the School of Economics and Management of Tsinghua University in 2008.

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Mr. Wu Yongliang is currently the Chief Financial Officer of our Company. Mr. Wu joined the civil aviation industry in 1984. He was the deputy director of the Finance Department of China Eastern Airlines Company from 1993 to 1997, the deputy director and subsequently the director of the Finance Department of our Company from 1997 to 1998, the director of Planning and Finance Department of our Company from 1998 to 2000, the head of the Finance Department of CEA Holding from 2000 to 2001, the deputy chief accountant and the head of the Finance Department of CEA Holding from 2001 to March 2009. Since April 2009, he has served as the Chief Financial Officer of our Company. Mr. Wu graduated from the Economic Management Department of Civil Aviation University of China, specializing in planning and finance. He also graduated from Fudan University, specializing in business administration. Mr. Wu has the qualification of post-graduate and holds the title of Accountant.

B. Compensation

The aggregate amount of cash compensation paid by us to our Directors, supervisors and the senior management during 2009 for services performed as Directors, supervisors and officers or employees of our Company was approximately RMB2,724,000. 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 2009 are as follows:

| Name and Principal Position | 2009 | | |
|--|-------------------------|---------|--------------|
| | Salaries and allowances | Bonus | Total |
| | RMB'000 | RMB'000 | RMB'000 |
| Directors | | | |
| Liu Shaoyong*/**** | — | — | — |
| Ma Xulun | 142 | — | 142 |
| Luo Chaogeng* | — | — | — |
| Li Jun* | — | — | — |
| Luo Zhuping | 182 | — | 182 |
| Li Fenghua*/** | — | — | — |
| Cao Jianxiong*/** | — | — | — |
| Independent non-executive Directors | | | |
| Hu Honggao**** | 120 | — | 120 |
| Peter Lok** | 106 | — | 106 |
| Wu Baiwang | 120 | — | 120 |
| Zhou Ruijin**** | 120 | — | 120 |
| Xie Rong | 120 | — | 120 |
| Sandy Ke-Yaw Liu*** | 106 | — | 106 |
| Supervisors | | | |
| Liu Jiangbo* | — | — | — |
| Xu Zhao* | — | — | — |
| Wang Taoying** | 44 | — | 44 |
| Yang Jie** | — | — | — |
| Liu Jiashun* | — | — | — |
| Yan Taisheng*** | 172 | — | 172 |
| Feng Jinxiong*** | 142 | — | 142 |
| Senior Management | | | |
| Zhang Jianzhong | 209 | — | 209 |
| Li Yangmin | 201 | — | 201 |
| Fan Ru**** | 660 | — | 660 |
| Zhao Jinyu*** | 88 | — | 88 |
| Luo Weide** | 62 | — | 62 |
| Wu Yongliang*** | 130 | — | 130 |
| Total | 2,724 | | 2,724 |

*Certain Directors 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 retired or resigned during the year ended December 31, 2009.

***These directors, supervisors and senior management of the Company were newly appointed during the year ended December 31, 2009.

****These directors, supervisors and senior management of the Company retired or resigned between January 1, 2010 and June 24, 2010, the date of this filing.

During the year ended December 31, 2009, no Directors and 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 | Held Position Since | Expiration of Term |
|------------------|---------------------|--------------------|
| Liu Shaoyong | February 3, 2009 | June 29, 2010 |
| Li Jun | June 29, 2007 | June 29, 2010 |
| Ma Xulun | February 3, 2009 | June 29, 2010 |
| Luo Chaogeng | June 29, 2007 | June 29, 2010 |
| Luo Zhuping | June 29, 2007 | June 29, 2010 |
| Wu Baiwang | June 29, 2007 | June 29, 2010 |
| Xie Rong | June 29, 2007 | June 29, 2010 |
| Sandy Ke-Yaw Liu | June 13, 2009 | June 29, 2010 |
| Wu Xiaogen | March 19, 2010 | June 29, 2010 |
| Ji Weidong | March 19, 2010 | June 29, 2010 |
| Liu Jiangbo | June 29, 2007 | June 29, 2010 |
| Xu Zhao | June 29, 2007 | June 29, 2010 |
| Yan Taisheng | March 26, 2009 | June 29, 2010 |
| Feng Jinxiong | March 26, 2009 | June 29, 2010 |
| Liu Jiashun | June 29, 2007 | June 29, 2010 |
| Zhang Jianzhong | June 29, 2007 | June 29, 2010 |
| Li Yangmin | June 29, 2007 | June 29, 2010 |
| Zhao Jinyu | December 23, 2009 | June 29, 2010 |
| Tang Bing | February 1, 2010 | June 29, 2010 |
| Wu Yongliang | March 31, 2009 | June 29, 2010 |

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. The Directors, executive officers and supervisors for the following term will be approved during our annual general meeting on June 28, 2010.

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 June 29, 2007, the fifth session of the Board of our Company held the first meeting for 2007 and elected Mr. Xie Rong, Mr. Hu Honggao and Mr. Zhou Ruijin as the members of the audit committee and appointed Mr. Xie Rong as the chairman of the audit committee. 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. Xie Rong serves as the chairman of the audit and risk management committee.

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.

Remuneration and Appraisal Committee

On June 29, 2007, the fifth session of the Board of the Company held the first meeting for 2007 and 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 Nomination Committee of our Company and the Remuneration and Appraisal to form the Nomination and Remuneration Committee, while also approving the appointment of Mr. Liu Shaoyong, Mr. Sandy Ke-Yaw Liu and Mr. Ji Weidong as the members of the Nomination and Remuneration Committee of the fifth session of the Board. Mr. Liu Shaoyong was elected as the chairman of the Nomination and Remuneration Committee.

The Nomination 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 Nomination 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 Nomination and Remuneration Committee may consult financial, legal or other outside professional firms in carrying out its duties. Prior to the establishment of the Nomination 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.

Planning and Development Committee

As of December 31, 2009, the three members of the Planning and Development Committee were Mr. Wu Baiwang, Mr. Luo Chaogeng and Mr. Luo Zhuping. Mr. Wu Baiwang, an independent non-executive director, is the chairman of the 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 four meetings in 2009.

Aviation Safety and Environment Committee

Our Board of Directors approved the establishment of the Aviation Safety and Environment Committee and passed the “Working Rules of the Aviation Safety and Environment Committee” at the first regular meeting of the Board of Directors in 2010 on January 20, 2010. During the 36th ordinary meeting of the fifth session of the Board of the Company held on March 19, 2010, our Board of Directors agreed that Mr. Ma Xulun, Mr. Sandy, Ke-Yaw Liu and Mr. Wu Xiaogen would serve on the Aviation Safety and Environment Committee. Mr. Ma Xulun serves as the chairman of the committee.

The Aviation Safety and Environment Committee, a specialized committee under our Board of Directors, is responsible for overseeing consistency in the 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 overseeing their implementation.

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 35 and 36 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, 2007, 2008 and 2009, respectively:

| | As of December 31 | | |
|-----------------------|-------------------|--------|--------|
| | 2007 | 2008 | 2009 |
| Pilots | 2,873 | 3,048 | 3,350 |
| Flight attendants | 5,851 | 6,036 | 6,417 |
| Maintenance personnel | 6,043 | 7,425 | 9,411 |
| Sales and marketing | 2,483 | 2,922 | 3,713 |
| Other | 23,227 | 24,722 | 23,047 |
| Total | 40,477 | 44,153 | 45,938 |

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 June 4, 2010 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 | HKSCC Nominees Limited (1) | 3,472,202,039 | 99.22% | 30.79% |

(1) As custodian of the Depository for American Depositary Shares representing H Shares. Amount of shares owned 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 June 4, 2010, CEA Holding held 42.84% 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, 2009 and June 4, 2010, there were 3,494,325,000 H Shares issued and outstanding. As of December 31, 2009 and June 4, 2010, there were, respectively, 51 and 48 registered holders of American depositary receipts evidencing 948,633 and 1,014,533 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 44 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, or EAIEC, a 55% owned subsidiary of CEA Holding.

Our Company and EAIEC have entered into an import/export agency agreement dated May 12, 2005 to supersede our agreement dated January 7, 1997, regarding the import and export of aircraft-related accessories, machinery and equipment for a term of three years commencing from July 1, 1999. The agreement is subject to renewal. For the year ended December 31, 2009, the handling charges paid to EAIEC were approximately RMB48 million in total.

We have certain balances with EAIEC, which are unsecured, interest-free and have no fixed term of repayment. See Note 44(a) to our audited consolidated financial statements for more details.

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On April 29, 2008, we entered into an agreement to renew our agreement dated May 12, 2005 regarding the import and export of aircraft-related accessories, machinery and equipment in substantially the same terms for an additional term of three years commencing from July 1, 2008.

Shanghai Eastern Aviation Advertising Service Co., Ltd., or Eastern Aviation Advertising, a 55% owned subsidiary of CEA Holding.

Advertising service agreement

Our Company and Eastern Aviation Advertising have entered into an advertising service agreement dated May 12, 2005 to supersede our agreement dated December 30, 1996, regarding the provision of advertising services for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. For the year ended December 31, 2009, the aggregate amount we paid to Eastern Aviation Advertising for advertising services was approximately RMB13 million.

On April 29, 2008, we entered into an agreement to renew our agreement dated May 12, 2005 regarding the provision of advertising services in substantially the same terms, for an additional term of three years commencing from July 1, 2008.

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.

China Eastern Air Catering Investment Co., Ltd., or CEA Catering, a 55% subsidiary of CEA Holding. The remaining 45% is owned by our Company.

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. For the year ended December 31, 2009, the aggregate amount we paid to the subsidiaries of CEA Catering for the supply of in-flight meals and other services was approximately RMB441 million.

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, is for a term of three years commencing from July 1, 2008.

Eastern Air Group Finance Co., Ltd., or Eastern Finance, which is 46.3% owned and controlled by 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. As of December 31, 2009, we had short-term deposits amounting to RMB465 million placed with Eastern Finance, which paid interest to us at 0.36% per annum. In addition, our Company had short-term loans of RMB595 million from Eastern Finance. During the year ended December 31, 2009, the weighted average interest rate on the loan was 4.4% per annum. As of December 31, 2009, we had long-term loans of RMB230 million and RMB162 million with Eastern Finance and CEA Holding, respectively. These loans both had a weighted average interest rate of 4.7% per annum.

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, Bank of Agriculture 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.

CEA Development Co., a non-wholly 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.

For the year ended December 31, 2009, automobile maintenance fees paid to CEA Development Co. amounted to approximately RMB32 million and equipment maintenance fees paid to SEAEMC were approximately RMB5 million.

Ticket Sales

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 the 31st of December in each calendar year, and agree on any required adjustments to such commission rate in respect of the next calendar year. For the year ended December 31, 2009, the aggregate amount of commissions we paid to those sales agents for the sales agency services was approximately RMB16 million.

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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.

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 88, 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. Pursuant to this property leasing agreement, we leased from CEA Holding, for our use in daily airlines and other business operations: (i) a maximum of altogether 33 land properties owned by CEA Holding through, and registered in the name of, CEA Northwest, covering an aggregate site area of approximately 692,539 square meters located primarily in Xi'an, Xianyang and Yongdeng, together with a total of 225 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 269,148 square meters; and (ii) a maximum of altogether seven land properties owned by CEA Holding through, and registered in the name of, CEA Yunnan, covering an aggregate site area of approximately 420,768 square meters primarily located in Kunming, together with a total of 81 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 457,722 square meters. Under the property leasing agreement, our Company shall pay annual rentals 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. In 2009, we paid a rental of RMB55 million under this property leasing agreement.

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 RMB55.14 million. The rental payments will be 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 was approved, confirmed and ratified by independent shareholders at our Annual General Meeting held on June 30, 2008.

Guarantee by CEA Holding

As of December 31, 2009, certain unsecured long-term bank loans of the Group with an aggregate amount of RMB447 million were guaranteed by CEA Holding. See Note 31 to our audited consolidated financial statements.

Subscription Agreements with CEA Holding and CES Global

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.

C. Interests of Experts & 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. On August 18, 2009, the Court accepted the case. Legal documents including summons, prosecution notifications and related materials have been served on the Company. Trial proceedings have not yet begun. The management of the Group believes that any outcome for this case will not have an adverse effect on the financial condition and results of operations of the Company.

Save for the above-mentioned, we were not involved in any other new material litigation in the period of this report.

Dividends and Dividend Policy

For the fiscal year ended December 31, 2005, our Board of Directors did not recommend any dividend payout. For the fiscal year ended December 31, 2006, our Board of Directors did not recommend any dividend payout due to our operating results in 2006. For the fiscal year ended December 31, 2007 and 2008, our Board of Directors also did not recommend any dividend payout due to our total accumulated losses of RMB2,814 million in the year 2007 and of RMB18,082 million in the year 2008, respectively. For the fiscal year ended December 31, 2009, our Board of Directors also did not recommend any dividend payout due to our total accumulated losses of RMB17,913 million in the year 2009. The balance of accumulated losses will be carried forward to next year. We will not convert funds from the common reserve to increase our share capital during this period. The declaration and payment of dividends for years following 2009 will depend upon our financial results, our shareholders' interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends by us to our shareholders, and other factors our Directors may deem relevant. Holders of our H Shares will receive the equivalent amount of cash dividend as that declared in Renminbi, 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.

B. Significant Changes

Significant Post Financial Statements Events

On July 10, 2009, the Company entered into an absorption agreement (the "Absorption Agreement") with Shanghai Airlines in relation to a proposed acquisition of Shanghai Airlines (the "Proposed Acquisition"). Pursuant to the Absorption Agreement, the Company will issue a maximum of 1,694,838,860 A Shares of the Company to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. On October 9, 2009, the Company convened the relevant shareholders' meeting in which the Proposed Acquisition was approved.

On December 30, 2009, the Proposed Acquisition was approved by China Securities Regulatory Commission. On January 28, 2010 (the "Acquisition Date"), the Company issued 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all issued shares of Shanghai Airlines, resulting in Shanghai Airlines becoming a wholly

owned subsidiary of the Company.

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The fair value of identifiable assets and liabilities (the “Acquired Assets and Liabilities”) of Shanghai Airlines as of the Acquisition Date was estimated by the Board through a valuation conducted by an independent valuer in respect of the Acquired Assets and Liabilities as of December 31, 2009. As of January 28, 2010, the identifiable net liabilities of Shanghai Airlines acquired by our Company had a book value of approximately RMB765 million and a fair value of approximately RMB2,055 million. Additional details relating to the carrying amount and fair value of the Acquired Assets and Liabilities, provisionally determined, are set forth below:

| | Carrying Amount RMB'000 | Fair Value RMB'000 |
|--|-------------------------------|-----------------------|
| Assets | | |
| Non-current assets | | |
| Intangible assets | 21,352 | 21,352 |
| Property, plant and equipment | 10,274,572 | 8,549,043 |
| Lease prepayments | 115,804 | 551,336 |
| Advances payments on acquisition of aircraft | 1,072,367 | 1,072,367 |
| Investment in an associates | 59,714 | 59,714 |
| Investment in jointly controlled entities | 19,184 | 19,184 |
| Available -for -sale financial assets | 181,780 | 181,780 |
| Other long term assets | 526,659 | 526,659 |
| Deferred tax assets | 510 | 510 |
| | 12,271,942 | 10,981,945 |
| Current assets | | |
| Flight equipment spare parts | 333,043 | 333,043 |
| Trade receivables | 698,362 | 698,362 |
| Prepayments, deposits and other receivables | 1,398,095 | 1,398,095 |
| Cash and cash equivalents | 1,167,565 | 1,167,565 |
| | 3,597,065 | 3,597,065 |
| Total assets | 15,869,007 | 14,579,010 |
| Liabilities | | |
| Current liabilities | | |
| Sales in advance of carriage | 311,170 | 311,170 |
| Trade payables and notes payable | 1,383,575 | 1,383,575 |
| Other payables and accrued expenses | 2,492,280 | 2,492,280 |
| Current portion of obligations under finance leases | 73,691 | 73,691 |
| Current portion of borrowings | 5,711,604 | 5,711,604 |
| Income tax payable | 16,433 | 16,433 |
| Current portion of provision for return condition checks for aircraft under operating leases | 46,378 | 46,378 |
| Derivative liabilities | 18,004 | 18,004 |
| | 10,053,135 | 10,053,135 |
| Non-current liabilities | | |
| Obligations under finance leases | 1,010,646 | 1,010,646 |
| Borrowings | 4,209,955 | 4,209,955 |
| Provision for return condition checks for aircraft under operating leases | 639,556 | 639,556 |
| Other long-term liabilities | 248,218 | 248,218 |

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| | | |
|-------------------------------------|------------|------------|
| Deferred tax liabilities | 1,163 | 1,163 |
| Post-retirement benefit obligations | 417,369 | 417,369 |
| | 6,526,907 | 6,526,907 |
| Total liabilities | 16,580,042 | 16,580,042 |
| Net liabilities | 711,035 | 2,001,032 |
| Minority interests | 53,920 | 53,920 |
| Net liabilities acquired | 764,955 | 2,054,952 |

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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 100 H Shares, have been issued by The Bank of New York Mellon as the Depository 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, 2009 and June 4, 2010, there were 3,494,325,000 H Shares issued and outstanding. As of December 31, 2009 and June 4, 2010, there were, respectively, 51 and 48 registered holders of American depository receipts evidencing 948,633 and 1,014,533 ADSs. 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 6,087,375,000 and 7,782,213,860 domestic ordinary shares were also outstanding as of December 31, 2009 and June 4, 2010, respectively. The increase in domestic ordinary shares was due to the issuance of 1,694,838,860 A shares in January 2010 in relation to our absorption of Shanghai Airlines.

The table below sets forth certain market information relating to our H Shares and ADSs in respect of the period from 2005 to June 4, 2010.

| | Price Per H Share (HK\$) | | Price Per ADS (US\$) | |
|--------------------------------|-----------------------------|------|-------------------------|-------|
| | High | Low | High | Low |
| 2005 | 1.70 | 0.95 | 22.48 | 12.52 |
| 2006 | 1.73 | 0.99 | 22.54 | 13.00 |
| 2007 | 10.50 | 1.68 | 111.58 | 24.02 |
| 2008 | 8.11 | 0.65 | 102.99 | 8.47 |
| First Quarter 2008 | 8.11 | 3.29 | 102.99 | 43.61 |
| Second Quarter 2008 | 4.12 | 2.41 | 53.19 | 30.80 |
| Third Quarter 2008 | 2.86 | 1.05 | 36.50 | 15.01 |
| Fourth Quarter 2008 | 1.47 | 0.65 | 18.80 | 8.47 |
| 2009 | 3.12 | 0.91 | 52.75 | 12.00 |
| First Quarter 2009 | 1.28 | 0.91 | 14.95 | 12.00 |
| Second Quarter 2009 | 1.87 | 1.19 | 23.92 | 15.56 |
| Third Quarter 2009 | 2.78 | 1.74 | 35.50 | 21.83 |
| Fourth Quarter 2009 | 3.12 | 2.08 | 40.67 | 26.76 |
| November 2009 | 3.12 | 2.08 | 40.67 | 26.80 |
| December 2009 | 3.12 | 2.46 | 40.55 | 32.01 |
| January 2010 | 2.99 | 2.55 | 38.03 | 32.68 |
| February 2010 | 3.27 | 2.53 | 41.99 | 32.96 |
| March 2010 | 4.10 | 2.97 | 52.75 | 38.40 |
| April 2010 | 4.51 | 3.65 | 57.10 | 47.03 |
| May 2010 | 4.44 | 2.96 | 56.10 | 38.11 |
| June 2010 (up to June 4, 2010) | 3.39 | 3.15 | 42.98 | 40.40 |

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 February 2, 2010, 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 People’s Republic of China’s 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 People's Republic of China 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, 2009, our share capital structure was as follows: 9,581,700,000 ordinary shares of which (a) 4,831,375,000 A shares, which represented 50.42% of our share capital, were held by CEA Holding; (b) 1,256,000,000 A shares, which represented 13.11% of our share capital, were issued to investors in China; and (c) 3,494,325,000 H shares, which represented 36.47% of our share capital, were issued to foreign investors including CES Global, a wholly owned subsidiary of CEA Holding. As of June 4, 2010, our share capital structure increased to a total of 11,276,538,860 ordinary shares, comprising a total of 7,782,213,860 A shares (including 1,694,838,860 A shares issued in January 2010 in relation to our absorption of Shanghai Airlines), representing 42.84% of the total share capital of the Company and a total of 3,494,325,000 H shares, representing 30.79% of the total share capital of the Company.

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;
- (ix)

reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares 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;
- (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;
- (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 3 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 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:

- (1) a fee (for each instrument of transfer) of two dollars and fifty cents Hong Kong dollars or any higher fee as agreed by the 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);
- (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 its issued shares under the following circumstances:

- (i) cancellation of shares for the reduction of its capital;
- (ii) merging with another company that holds shares in our Company;
- (iii) other circumstances permitted by relevant laws and administrative regulations.

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

We may, with the approval of the relevant State governing authority for repurchasing its 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;
- (iii) repurchase by an off-market agreement outside a stock exchange.

Interested Shareholders

Articles 88 and 89 of our Articles of Associations 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;

(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 these Articles of Association.

Recent Amendments to the Articles of Association

On February 26, 2009, our shareholders approved an amendment to Article 63 and Article 145 of the Articles of Association. The first paragraph of Article 63 and the second paragraph of Article 145 were amended as follows, respectively:

“Notice of shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid airmail to their addresses as shown in the register of shareholders. For the holders of Foreign-Invested Shares, such notice of meeting may be issued by way of publishing such notice on the Company's website. For the holders of Domestic-Invested Shares, such notice of meeting may be issued by way of public notice.”

“The Company shall deliver or send the said reports to each shareholder of Overseas-Listed Foreign-Invested Shares by prepaid mail at the address registered in the register of shareholders, or publish the said reports on the website of the Company for the shareholders of Overseas-Listed Foreign-Invested Shares to review not later than twenty-one (21) days before the date of every annual general meeting of shareholders.”

On April 28, 2009, our shareholders approved amendments, which amended in part or in whole, the following Articles of the Articles of Association as follows:

Article 1: “As the Company changed its legal representative on February 11, 2009, it also replaced its business license. Its business license number is: 310000400111686 (Airport).” “The promoter of the Company is: China Eastern Air Holding Company.”

Article 6: “In accordance with the PRC Company Law, the Special Regulations, Mandatory Provisions for the Articles of Association of Companies to be Listed Outside China (the “Mandatory Provisions”) and other relevant laws and administrative regulations, the Company formulated the articles of association of the Company.”

Article 28: “The Company shall notify its creditors within 10 days of the date of the Company’s resolution for reduction of capital and shall publish a notice in a newspaper within 30 days of the date of such resolution. A creditor has the right within 30 days of receiving the notice from the Company or, in the case of a creditor who does not receive the notice, within 45 days of the date of the public notice, to require the Company to repay its debts or provide a corresponding guarantee for such debt.”

Article 46: “If a shareholder of Domestic-Invested Shares loses his share certificate and applies to the Company for a replacement new share certificate, it shall be dealt with in accordance with article 144 of the Company Law.”

Article 56: “(9) to decide on matters such as merger, division, change in company form, dissolution and liquidation of the Company;” “(13) to consider motions raised by shareholders who represent 3 per cent or more of the total shares of the Company carrying the right to vote;”

Article 60: “When the Company convenes a shareholders’ annual general meeting, shareholders holding 3 per cent or more of the total voting shares of the Company can within the timeline prescribed by laws and regulations and listing rules, propose new motions and submit to the board of directors in writing before the convening of the shareholders’ annual general meeting. The Company shall place those matters in the proposed motions submitted by shareholders within the prescribed timeline that are within the scope of functions and powers of the shareholders’ general meeting on the agenda.”

Article 71: “To adopt an ordinary resolution, votes representing a majority of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed.”

Article 97(A): “Any purchase, sale of material assets or guarantee by the Company within one year with an amount exceeding 30 per cent of the Company’s total assets must comply with and satisfy these articles of association, all applicable laws and administrative regulations and/or any other rules or requirements that may be promulgated by relevant authorities from time to time; and shall require resolutions by the shareholders in a shareholders’ general meeting, which should be passed by more than two-thirds of the voting rights of the shareholders who attend the meeting.”

Article 100: “Regular meetings of the board of directors shall be held four times every year, approximately once per quarter and shall be convened by the Chairman of the board of directors. Upon requisition by the shareholders representing more than one tenth of the voting rights, more than one half of the directors, supervisory committee and more than one half of the independent directors or upon request by the securities regulatory authorities, an extraordinary meeting of the board of directors shall be held. In case of any urgent matters, the Chairman may convene an extraordinary meeting of the board of directors; upon requisition by more than one third of the directors or by the general manager, an extraordinary meeting of the board of directors may be held. The Chairman of the board shall convene and preside over the meeting of the board of directors within 10 days upon receipt of the requisition.”

Article 104: “Meetings of the board of directors shall be held only if a majority of the directors (including any directors appointed pursuant to Article 105 below) are present.”

Article 119: “Supervisory committee meetings shall be divided into regular meetings and extraordinary meetings, and shall be convened by the chairman of the supervisory committee. A regular supervisory committee meeting shall be convened at least once every six months. Supervisors can propose to convene an extraordinary meeting.

The convener of a meeting shall notify all supervisors in writing 10 days (for regular meetings) and 5 days (for extraordinary meetings) prior to the meeting. A notice of meeting shall specify:

- (1) the date and the place of the meeting;
- (2) the length of the meeting;
- (3) the matters and topics to be discussed; and
- (4) the date of the notice.”

Article 120: “(6) to propose a motion for a shareholders’ general meeting;”

Article 143: “At the end of each fiscal year, the Company shall prepare a financial report which shall be audited by an accounting firm as provided by the law. The financial and accounting reports shall be prepared according to the laws, administrative regulations, and stipulations of the finance department of the State Council and securities regulatory authorities.”

Article 153: “The capital common reserve fund shall not be used for making up the losses of the Company.”

Article 157: “The Company should pay close attention to profit distribution to ensure reasonable return of investment to the investors and the 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. In the event that the board of directors of the Company does not expect to conduct profit distribution in cash, the Company shall state the reasons in its periodic report.”

Article 173: “In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within 10 days of the date of the Company’s resolution to merge and shall publish a notice in a newspaper within 30 days of the date of the Company’s resolution to merge. A creditor has the right within 30 days of receiving such notice from the Company or, for creditors who do not receive the notice within 45 days of the date of the public notice, to demand that the Company repay its debts to that creditor or provide a corresponding guarantee for such debt. Where the company fails to repay its debts or provide corresponding guarantees for such debts, it may not be merged.”

Article 174: “In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within 10 days of the date of the Company’s resolution to divide and shall publish a notice in a newspaper within 30 days of the date of the Company’s resolution to divide. The debts before the event of division of the Company shall be jointly and severally liable by the companies after division. However, there is exception if the Company and creditors have otherwise agreed upon the debt repayment in written agreement before the event of division of the Company.”

Article 179: “The liquidation group shall within 10 days of its establishment send notices to creditors, and within 60 days of its establishment publish a notice in a newspaper. A creditor shall within 30 days of receiving notice, or for creditors who do not receive notice, within 45 days of the date of the public notice, report its creditors’ rights to the liquidation group.”

Article 184: “In the event that the provisions of the Articles of Association contravene with the requirements of PRC laws, regulations or regulatory documents, the latter shall prevail.”

In addition, our shareholders approved amendments to Articles 10, 71, 78(A), 78(B) and 143 by deleting certain or all provisions of these Articles.

On June 13, 2009, our shareholders approved amendments to Article 13 of the Articles of Association, which was amended, respectively, as follows:

Article 13: “The scope of business of the Company includes: domestic and approved international and regional business for air transportation of passengers, cargo, mail, luggage and extended services; general aviation business; maintenance of aviation equipment and machinery; manufacture and maintenance of aviation equipment; agency business for domestic and overseas airlines and other business related to air transportation, insurance agency services, and other lawful businesses that can be carried on by a joint stock limited company formed under the Company Law.

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 a few 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 will be conditional upon and with effect from approval of the respective resolution at our Annual General Meeting, which is scheduled to be held on June 13, 2010.

C. Material Contracts

For a summary of any material contracts entered into by our Company or any of its 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 June 15, 2009, between our Company and Airbus SAS regarding the purchase of 20 Airbus A320 aircraft (with engines);

- 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;
- 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;
- Agreement in relation to the absorption of Shanghai Airlines by way of Share Exchange by our Company, dated as of July 10, 2009; and
- an aircraft purchase agreement, dated as of December 23, 2009, between our Company and Airbus SAS regarding the purchase of 16 A330 aircraft (with engines).

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.

Taxation — Hong Kong

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 or off 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% 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 depositary or for the account of the depositary 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.

Taxation — China

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, or the Tax Notice, 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.

Amendments to the individual Income Tax Law of the PRC, or the Amendments, were promulgated on October 31, 1993 and became effective on January 1, 1994. The Amendments provide that any provisions of prior administrative regulations concerning individual income tax which contradict the Amendments are superseded by the Amendments. The Amendments and the amended Individual Income Tax Law can be interpreted to mean that foreign individuals are subject to a withholding tax on dividends received from a Chinese company at a rate of 20% unless such income is specifically exempted from individual income tax by the financial authority of the State Council. However, in a letter dated July 26, 1994 to the State Commission for Restructuring the Economic System, the State Securities Commission and the China Securities Regulatory Commission, the State Tax Bureau confirmed the temporary tax exemption set forth in the Tax Notice for dividends received from a Chinese company listed overseas. In the event this letter is withdrawn, a 20% tax may be withheld on dividends distributed to shareholders located overseas (or a 10% tax withheld on dividends distributed to shareholders located in Hong Kong or Macau) in accordance with the Provisional Regulations, the Amendments, and the Individual Income Tax Law of China. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

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.

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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 depositary 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 prior to January 1, 2011 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 2009 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 2010 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”.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of common stock and intermediaries through whom such stock is held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. 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 depositary, regardless of whether you or the depositary 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 depositary 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 “Taxation - China”), 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.

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. 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 2010 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 2010 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.

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.

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 web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

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

Not applicable.

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, 2009, the notional amount of the outstanding interest rate swap agreements was approximately US\$388 million. These interest rate swap agreements will expire between 2010 and 2018. If the interest rate had been 0.25% higher with all other variables held constant, interest expenses on our floating rate instruments would have increased by RMB105.7 million in 2008 or RMB94.4 million in 2009.

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, 2009, the notional amount of the outstanding currency forward contracts was approximately US\$82 million, which will expire between 2010 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. 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, Renminbi has appreciated significantly against certain foreign currencies, including 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, 2009 as a consequence of a fluctuation in value of the following major foreign currencies.

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| | Profit and Loss Account Decrease/Increase by RMB'000 |
|--------------------------------|---|
| U.S. dollar depreciates by 5% | 1,482,555 |
| Japanese yen depreciates by 5% | (6,233) |
| Euro depreciates by 5% | 667 |

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 the years 2008 and 2009, we hedged 41.58% and 52.59% of our annual fuel consumption respectively.

We engaged in aviation fuel hedging for the purpose of locking in aviation fuel costs. By selecting appropriate instruments, we locked 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 decreased or increased by 5% compared to the closing price as December 31, 2009, the fair value losses as of December 31, 2009 would increase or decrease by approximately RMB246 million and RMB 211 million, respectively.

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 American Depositary Shares, or ADSs, each representing one common share, are traded on the New York Stock Exchange under the symbol "CEA." The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by The Bank of New York Mellon, as depositary ("BNYM") 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:

| Service | Fees (in U.S. dollars) |
|--|--|
| Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property | \$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) |
| Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates | |
| Any cash distribution to ADS registered holders | \$0.02 (or less) per ADS |
| 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 | \$0.02 (or less) per ADSs per calendar year |
| 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 | |
| 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, 2009 to December 31, 2009, the Company received from the depository an aggregate of \$109,000 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 \$127,000.

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

Not applicable.

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, 2009, the end of the fiscal year covered by this Annual Report. Our 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 the 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, 2009 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, 2009 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.

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The effectiveness of our internal control over financial reporting as of December 31, 2009 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

We made the following change to our internal control over financial reporting during the period covered by this Annual Report:

In order to strengthen our internal control over financial reporting, we created a new position in 2009. The newly-created position, which will report directly to the manager of our finance department, will specifically focus on improving the organization, implementation, reporting and reviewing of policies and procedures related to internal control over financial reporting in our Company; and

In 2009, we initiated the implementation of a new SAP resource management system to supplement our existing Maximo resource management system in order to improve the inventory system.

Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that Mr. Xie Rong, the chairman of our audit committee, is an independent financial expert serving on our audit committee.

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. Our code of ethics can also be found on our corporate website, http://www2.ce-air.com/cea2/en_US/cea2_enUS_news_detail/0,15275,200,00.html?newsId=200. A copy of our code of ethics will be provided to any person free of charge upon written request to Zhuping Luo, Secretary Office of the Board of Directors, China Eastern Airlines Corporation Limited at Kong Gang San Lu, Number 88, 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, 2009:

| | Audit Fees | Audit-Related Fees | Tax Fees | All Other Fees |
|------|------------|--------------------|----------|----------------|
| | (RMB) | (RMB) | (RMB) | (RMB) |
| 2008 | 18,000,000 | 0 | 54,000 | 0 |
| 2009 | 12,000,000 | 11,000,000 | 60,000 | 0 |

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

Audit Fees

Audit fees primarily consist of fees for the audit of the Company's financial statements prepared under IFRS & PRC Accounting Standards for Business Enterprises as of and for the years ended December 31, 2008 and 2009.

Audit-Related Fees

Audit-related fees for the fiscal year ended December 31, 2009 primarily consist of fees for and services provided in connection with the Company's absorption of Shanghai Airlines and the relevant regulatory filings. No audit-related services were performed by our principal accountants for the fiscal year ended December 31, 2008.

Tax Fees

Tax fees primarily consist of fees for tax compliance services.

All Other Fees

No other services were performed by our principal accountants for the fiscal years ended December 31, 2008 and 2009.

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 common shares of the Company during 2009 and up to the date of this Annual Report.

Item 16F. Changes in Registrant's Certifying Accountant

There has not been a change in the Company's certifying accountant during 2008 and 2009.

Item 16G. Corporate Governance

The New York Stock Exchange ("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:

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 five independent Directors out of a total of ten 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. | <p>The Company has established a nomination committee. As of December 31, 2009, the Nomination 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 Nomination and Remuneration Committee was agreed at the ordinary meeting of the Board of the Company held on 19 March 2010.</p> <p>The Nomination 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</p> |

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 have a compensation committee composed entirely of independent directors. | The Company has established a remuneration and appraisal committee. As of December 31, 2009, the Remuneration and Appraisal 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 Nomination and Remuneration Committee was agreed at the ordinary meeting of the Board of the Company held on March 19, 2010. |
| Audit Committee | Section 303A.06 of the Listed Company Manual requires that listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of Exchange Act. It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of NYSE Corporate Governance Rules as well as the requirements of Rule 10A-3b (1) of the Exchange Act. | The change of Audit Committee of the Board to Audit and Risk Management Committee was resolved at the regular meeting of the Board held on August 9, 2009 and the corresponding amendments to its articles was approved. The Audit and Risk Management Committee consists of three independent non-executive Directors, and complies with relevant domestic requirements. |
| 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 2009 Hong Kong Annual Report, which can be accessed through the following link on our website: http://www.ceair.com/mu/main/gydh/tzzgx/dqbg/yxglhzqjysfb/2009_1/201004/P020100429340339062760.pdf.

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-90.

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:
-

Exhibit Index

| Exhibits | Description |
|----------|--|
| 1.1 | Articles of Association as amended on February 2, 2010 (English translation). |
| 2.1 | Specimen Certificate for the H Shares. (1) |
| 2.2 | Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and Owners and Beneficial Owners from time to time of American Depositary Receipts. (2) |
| 4.1 | Office Space Lease Agreement between our Company and Eastern Air Group Company (together with English translation). (1) |
| 4.10 | Amendment No. 9 to the A320 Purchase Agreement, dated as of April 21, 2005, between our Company and Airbus SAS. (3) (7) |
| 4.11 | Assets Transfer Agreement, dated as of May 12, 2005, between our Company, CEA Holding, CEA Northwest and CEA Yunnan (English translation). (3) |
| 4.12 | Aircraft Purchase Agreement, dated as of August 8, 2005, between our Company and The Boeing Company. (4) (7) |
| 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. (4) (7) |
| 4.14 | Amendment No. 10 to the A320 Purchase Agreement, dated as of June 26, 2006, between our Company and Airbus SAS. (4) (7) |
| 4.15 | |

Aircraft Purchase Agreement, dated as of January 30, 2008, between our Company and The Boeing Company. (5) (7)

- 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. (6)
- 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. (6)
- 4.18 Aircraft Purchase Agreement, dated as of June 15, 2009, between our Company and Airbus SAS. (7)
- 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.
- 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.
- 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.
- 4.22 Aircraft Purchase Agreement, dated as of December 23, 2009, between our Company and Airbus SAS. (7)
- 8.1 List of Subsidiaries (as of June 24, 2010).
- 11.1 Code of Ethics (English translation). (5)
- 12.1 Certification of President pursuant to Rule 13a-14(a).
- 12.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 13.1 Certification of President pursuant to Rule 13a-14(b).
- 13.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b).

(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) 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: June 24, 2010

CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2007, 2008 AND 2009

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 (“consolidated financial statements”) 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 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, 2009, 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 audits which were integrated audits in 2009 and 2008. 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, June 24, 2010

CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
 (Amounts in thousands except for per share data)

| | Note | Year ended December 31, | | |
|--|------|-------------------------|-----------------|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Revenues | 5 | 38,989,659 | 41,072,557 | 42,533,893 |
| Other operating income | 6 | 1,288,017 | 405,163 | 487,562 |
| Other gains | 6 | - | 267,084 | - |
| Operating expenses | | | | |
| Aircraft fuel | | (12,254,980) | (18,488,242) | (15,117,147) |
| Gain/(loss) on fair value movements of financial derivatives | 8 | 3,774,688 | (6,400,992) | 83,965 |
| Take-off and landing charges | | (5,460,351) | (5,279,590) | (5,174,183) |
| Depreciation and amortization | | (5,202,835) | (4,781,562) | (4,719,735) |
| Wages, salaries and benefits | 9 | (5,148,877) | (4,545,312) | (4,327,397) |
| Aircraft maintenance | | (3,018,724) | (3,272,981) | (2,392,039) |
| Impairment losses | 10 | (109,417) | (2,976,678) | (227,456) |
| Food and beverages | | (1,201,023) | (1,321,268) | (1,230,754) |
| Aircraft operating lease rentals | | (2,517,567) | (2,734,802) | (2,850,873) |
| Other operating lease rentals | | (407,386) | (369,236) | (292,844) |
| Selling and marketing expenses | | (1,977,760) | (1,562,945) | (1,805,342) |
| Civil aviation infrastructure levies | | (890,348) | (769,849) | (781,613) |
| Ground services and other charges | | (289,993) | (268,873) | (224,466) |
| Office, administrative and other expenses | | (3,751,763) | (4,055,679) | (3,833,938) |
| Total operating expenses | | (38,456,336) | (56,828,009) | (42,893,822) |
| Operating profit/(loss) | 11 | 1,821,340 | (15,083,205) | 127,633 |
| Share of results of associates | 22 | (46,602) | 69,668 | 58,312 |
| Share of results of jointly controlled entities | 23 | 23,803 | 24,050 | 30,086 |
| Finance income | 12 | 205,304 | 2,061,625 | 2,140,457 |
| Finance costs | 13 | (1,754,640) | (2,328,147) | (1,978,550) |
| Profit/(loss) before income tax | | 249,205 | (15,256,009) | 377,938 |
| Income tax | 14 | (52,547) | (73,916) | (23,763) |
| Profit/(loss) for the year | | 196,658 | (15,329,925) | 354,175 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in thousands except for per share data)

| | Note | Year ended December 31, | | |
|--|------|-------------------------|---------------------|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Other comprehensive income/(loss) for the year | | | | |
| Cash flow hedges, net of tax | 37 | 57,914 | (170,360) | (78,197) |
| Fair value movements of available for sale investments held by associates | 22 | (585) | (19,080) | 22,167 |
| Total comprehensive income/(loss) for the year | | 253,987 | (15,519,365) | 298,145 |
| Profit/(loss) attributable to: | | | | |
| Equity holders of the Company | | 168,766 | (15,268,532) | 378,568 |
| Minority interests | | 27,892 | (61,393) | (24,393) |
| | | 196,658 | (15,329,925) | 354,175 |
| Total comprehensive income/(loss) attributable to | | | | |
| Equity holders of the Company | | 226,095 | (15,457,972) | 322,538 |
| Minority interests | | 27,892 | (61,393) | (24,393) |
| | | 253,987 | (15,519,365) | 298,145 |
| Earnings/(loss) per share attributable to the equity holders of the Company during the year | | | | |
| – Basic and diluted (RMB) | 17 | 0.026 | (3.14) | 0.08 |

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

CHINA EASTERN AIRLINES CORPORATION LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008
(Amounts in thousands)

| | | December 31, | |
|--|------|-----------------|-----------------|
| | Note | 2009 RMB'000 | 2008 RMB'000 |
| Non-current assets | | | |
| Intangible assets | 18 | 69,622 | 164,851 |
| Property, plant and equipment | 19 | 56,703,560 | 52,678,473 |
| Lease prepayments | 20 | 970,835 | 996,521 |
| Advanced payments on acquisition of aircraft | 21 | 5,081,174 | 6,413,554 |
| Investments in associates | 22 | 723,022 | 980,319 |
| Investments in jointly controlled entities | 23 | 372,793 | 362,332 |
| Available-for-sale financial assets | | 57,269 | 31,268 |
| Other long-term assets | 24 | 926,312 | 941,556 |
| Deferred tax assets | 34 | 83,748 | 81,947 |
| Derivative assets | 37 | - | 988 |
| | | 64,988,335 | 62,651,809 |
| Current assets | | | |
| Flight equipment spare parts | | 932,260 | 871,364 |
| Trade receivables | 25 | 1,370,871 | 1,165,308 |
| Prepayments, deposits and other receivables | 26 | 2,370,495 | 4,315,722 |
| Cash and cash equivalents | 27 | 1,735,248 | 3,451,010 |
| Derivative assets | 37 | 3,490 | 123,010 |
| Non-current assets held for sale | 41 | 450,693 | 473,667 |
| | | 6,863,057 | 10,400,081 |
| Current liabilities | | | |
| Sales in advance of carriage | | 1,420,183 | 1,013,878 |
| Trade payables and notes payable | 28 | 6,480,459 | 5,459,094 |
| Other payables and accrued expenses | 29 | 11,517,204 | 12,246,065 |
| Current portion of obligations under finance leases | 30 | 2,125,430 | 1,916,989 |
| Current portion of borrowings | 31 | 12,330,075 | 26,513,320 |
| Income tax payable | | 21,126 | 39,002 |
| Current portion of provision for return condition checks for aircraft and engines under operating leases | 32 | 609,884 | 213,830 |
| Derivative liabilities | 37 | 1,006,286 | 6,456,075 |
| | | 35,510,647 | 53,858,253 |
| Net current liabilities | | (28,647,590) | (43,458,172) |
| Total assets less current liabilities | | 36,340,745 | 19,193,637 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2009 AND 2008

(Amounts in thousands)

| | Note | December 31, 2009 RMB'000 | 2008 RMB'000 |
|---|-------|---------------------------------|-----------------|
| Non-current liabilities | | | |
| Obligations under finance leases | 30 | 17,244,805 | 18,891,910 |
| Borrowings | 31 | 13,004,874 | 8,588,052 |
| Provision for return condition checks for aircraft and engines under operating leases | 32 | 1,237,871 | 1,320,188 |
| Other long-term liabilities | 33 | 1,203,423 | 1,320,759 |
| Deferred tax liabilities | 34 | 51,539 | 57,589 |
| Post-retirement benefit obligations | 35(b) | 1,798,707 | 1,469,124 |
| Derivative liabilities | 37 | 123,345 | 185,524 |
| | | 34,664,564 | 31,833,146 |
| Net assets/(liabilities) | | 1,676,181 | (12,639,509) |
| Equity | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| Share capital | 39 | 9,581,700 | 4,866,950 |
| Reserves | 40 | (8,347,147) | (17,964,351) |
| | | 1,234,553 | (13,097,401) |
| Minority interests | | 441,628 | 457,892 |
| Total equity | | 1,676,181 | (12,639,509) |

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, 2009, 2008 AND 2007
 (Amounts in thousands)

| | Note | Year ended December 31, | | |
|--|-------|-------------------------|-----------------|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Cash flows from operating activities | | | | |
| Cash generated from operations | 42(a) | 3,507,690 | 2,942,466 | 3,142,834 |
| Income tax paid | | (78,274) | (86,931) | (62,549) |
| Net cash inflow from operating activities | | 3,429,416 | 2,855,535 | 3,080,285 |
| Cash flows from investing activities | | | | |
| Additions of property, plant and equipment | | (5,685,345) | (1,289,350) | (1,592,310) |
| Proceeds from disposal of property, plant and equipment | | 32,888 | 1,856,358 | 70,681 |
| Acquisition of land use rights | | - | (53,117) | - |
| Advanced payments on acquisition of aircraft | | (1,927,252) | (3,603,824) | (3,737,079) |
| Refunds of advanced payments upon deliveries of aircraft | | - | 2,422,252 | 3,064,580 |
| Repayment of other payables (installment payment for acquisition of an airline business) | | (30,000) | (30,000) | (30,000) |
| Interest received | | 109,925 | 90,635 | 96,849 |
| Dividend received | | 53,725 | 29,679 | 22,367 |
| Capital injection in a jointly controlled entity | | - | - | (92,416) |
| Capital injections in associates | | - | (384,186) | - |
| Proceeds from disposal of interest in an associate | 22 | 210,000 | 3,698 | - |
| Proceeds on disposal of available-for-sale financial assets | | - | 32,972 | - |
| Proceeds from disposal of interest in a subsidiary | | - | - | 441,002 |
| Net cash outflow from investing activities | | (7,236,059) | (924,883) | (1,756,326) |

CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
 (Amounts in thousands)

| | Note | Year ended December 31, | | |
|--|------|-------------------------|------------------|--------------------|
| | | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Cash flows from financing activities | | | | |
| Proceeds from draw down of short-term bank loans | | 28,536,703 | 25,403,301 | 18,464,695 |
| Proceeds from sales and leaseback of aircraft | | 590,253 | - | - |
| Repayments of short-term bank loans | | (39,535,319) | (19,986,723) | (16,020,304) |
| Proceeds from draw down of long-term bank loans | | 10,823,185 | 4,748,071 | 3,383,349 |
| Repayments of long-term bank loans | | (9,522,385) | (3,922,593) | (2,985,480) |
| Principal repayments of finance lease obligations | | (2,005,264) | (2,593,656) | (2,974,718) |
| Refunds/(payments) of restricted bank deposits | | 1,347,525 | (1,365,116) | - |
| Interest paid | | (2,161,085) | (2,741,980) | (2,240,721) |
| Refunds of deposits pledged for finance leases upon maturities | | - | 419,604 | 779,646 |
| Proceeds from issuance of new shares | | 14,056,167 | - | - |
| Dividends paid to minority shareholders of subsidiaries | | (44,156) | (52,700) | (46,400) |
| Net cash inflow/(outflow) from financing activities | | 2,085,624 | (91,792) | (1,639,933) |
| Net (decrease)/increase in cash and cash equivalents | | (1,721,019) | 1,838,860 | (315,974) |
| Cash and cash equivalents at January 1 | | 3,451,010 | 1,655,244 | 1,987,486 |
| Exchange adjustments | | 5,257 | (43,094) | (16,268) |
| Cash and cash equivalents at December 31 | | 1,735,248 | 3,451,010 | 1,655,244 |

Notes to consolidated cash flow statements is set out in Note 42 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, 2007, 2008 AND 2009
 (Amounts in thousands)

| | Share capital RMB'000 | Attributable to equity holders of the Company | | Subtotal RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|--|-----------------------------|--|-------------------------------|---------------------|----------------------------------|----------------------------|
| | | Other reserves RMB'000 | Accumulated losses RMB'000 | | | |
| Balance at January 1, 2007 | 4,866,950 | 792,189 | (3,621,106) | 2,038,033 | 648,765 | 2,686,798 |
| Profit/(loss) for the year | - | - | 378,568 | 378,568 | (24,393) | 354,175 |
| Other comprehensive loss | - | (56,030) | - | (56,030) | - | (56,030) |
| Total comprehensive (loss)/income for the year | - | (56,030) | 378,568 | 322,538 | (24,393) | 298,145 |
| Dividend paid to minority interests in subsidiaries | - | - | - | - | (46,400) | (46,400) |
| Disposal of a subsidiary | - | - | - | - | (5,987) | (5,987) |
| Adjustment to statutory and discretionary reserves | - | (428,808) | 428,808 | - | - | - |
| Balance at December 31, 2007 | 4,866,950 | 307,351 | (2,813,730) | 2,360,571 | 571,985 | 2,932,556 |

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CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009

(Amounts in thousands)

| | Share capital RMB'000 | Attributable to equity holders of the Company | | Subtotal RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|--|-----------------------------|--|-------------------------------|---------------------|----------------------------------|----------------------------|
| | | Other reserves RMB'000 | Accumulated losses RMB'000 | | | |
| Balance at January 1, 2008 | 4,866,950 | 307,351 | (2,813,730) | 2,360,571 | 571,985 | 2,932,556 |
| Loss for the year | - | - | (15,268,532) | (15,268,532) | (61,393) | (15,329,925) |
| Other comprehensive loss | - | (189,440) | - | (189,440) | - | (189,440) |
| Total comprehensive loss for the year | - | (189,440) | (15,268,532) | (15,457,972) | (61,393) | (15,519,365) |
| Dividend paid to minority interests in subsidiaries | - | - | - | - | (52,700) | (52,700) |
| Balance at December 31, 2008 | 4,866,950 | 117,911 | (18,082,262) | (13,097,401) | 457,892 | (12,639,509) |

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CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009

(Amounts in thousands)

| | Share capital RMB'000 | Attributable to equity holders of the Company | | Subtotal RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|--|-----------------------------|--|-------------------------------|---------------------|----------------------------------|----------------------------|
| | | Other reserves RMB'000 | Accumulated losses RMB'000 | | | |
| Balance at January 1, 2009 | 4,866,950 | 117,911 | (18,082,262) | (13,097,401) | 457,892 | (12,639,509) |
| Profit for the year | - | - | 168,766 | 168,766 | 27,892 | 196,658 |
| Other comprehensive income | - | 57,329 | - | 57,329 | - | 57,329 |
| Total comprehensive income for the year | - | 57,329 | 168,766 | 226,095 | 27,892 | 253,987 |
| Other equity movement of an associate | - | 49,692 | - | 49,692 | - | 49,692 |
| Issuance of new shares | 4,714,750 | 9,341,417 | - | 14,056,167 | - | 14,056,167 |
| Dividend paid to minority interests in subsidiaries | - | - | - | - | (44,156) | (44,156) |
| Balance at December 31, 2009 | 9,581,700 | 9,566,349 | (17,913,496) | 1,234,553 | 441,628 | 1,676,181 |

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, and mail delivery and other extended transportation services.

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

During the year ended December 31, 2009, the Company issued total 2,787,375,000 A shares to CEA Holding (1,927,375,000 shares) and other investors (860,000,000 shares), and 1,927,375,000 H shares to CES Global Holding (Hong Kong) Limited (“CES Global”), a wholly owned subsidiary of CEA Holding incorporated in Hong Kong (details referred to Note 39).

These financial statements have been approved for issue by the Company’s Board of Directors (the “Board”) on April 19, 2010.

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 Standards Board. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

In preparing the financial statements, the Board has given careful consideration to the going concern status of the Group in the context of the Group’s current working capital deficit.

As at December 31, 2009, the Group’s accumulated losses were approximately RMB17.91 billion and its current liabilities exceeded its current assets by approximately RMB28.65 billion.

Against this background, the Board has taken active steps to seek additional sources of finance and improve the Group’s liquidity position. As at December 31, 2009, the Group had total credit facilities of RMB50.9 billion from certain 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 credit facilities and based on the Group's history of obtaining finance and its relationships with its bankers and creditors, the Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

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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)

(i) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRSs as at January 1, 2009:

§IFRS 7 ‘Financial Instruments — Disclosures’ (amendment) — effective January 1, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

§IAS 1 (revised). ‘Presentation of financial statements’ — effective January 1, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

§IFRS 8, ‘Operating segments’ (effective January 1, 2009). IFRS 8 replaces IAS 14, ‘Segment reporting’, and aligns segment reporting with the requirements of the US standard SFAS 131, ‘Disclosures about segments of an enterprise and related information’. The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker (“CODM”).

With effective from January 1, 2009, the Group has redefined its operating segments so that to present the segment information in the same manner as management’s internal reporting. The Group 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. From a service perspective and pursuant to the above re-segmentation, the Group has only one reportable operating segment, reported as “airline operations”. Comparative amounts of the year 2008 have been restated to reflect the re-segmentation.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after January 1, 2010 or later periods, but the Group has not early adopted them:

§IFRIC 17 ‘Distribution of non-cash assets to owners’ (effective from July 1, 2009). The interpretation is part of the IASB’s annual improvements project published in April/May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution

only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply IFRIC 17 from January 1, 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

§IAS 27 (revised), 'Consolidated and separate financial statements', (effective from July 1, 2009). The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The Group will apply IAS (revised) prospectively to transactions with minority interest from January 1, 2010.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

§ IFRS 3 (revised), 'Business combinations' (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from January 1, 2010.

§ IAS 38 (amendment), 'Intangible Assets' (effective from July 1, 2009). The amendment is part of the IASB's annual improvements project published in April/May 2009 and the Group and Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or Company's financial statements.

§ IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The amendment is part of the IASB's annual improvements project published in April/May 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group and Company will apply IFRS 5 (amendment) from January 1, 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

§ IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April/May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply IAS1 (amendment) from January 1, 2010. It is not expected to have a material impact on the Group's or Company's financial statements.

§ 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 Group will apply the standard from January 1, 2013.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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

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

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

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

(ii) Transactions with minority interests

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

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| | |
|-------|---------------------------|
| (c) | Consolidation (continued) |
| (iii) | Associates |

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

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

| | |
|------|-----------------------------|
| (iv) | Jointly controlled entities |
|------|-----------------------------|

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

The Group's interests in jointly controlled entities are accounted for by the equity method of accounting based on the audited financial statements or management accounts of the jointly controlled entities. The Group's share of its jointly controlled entities' post-acquisition profits or losses is 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.

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 CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Manager Office 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 Company's functional and presentation currency.

(ii) Transactions and balances

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

(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 and 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.

(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) 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.

(iii)

Other revenue

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

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

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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 receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is 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.

(j) Current and deferred tax

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

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

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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(continued)

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.

(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 that are expected to benefit from the business combination in which the goodwill arose.

(ii) Sponsorship fees

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

(iii) Computer software costs

Acquired computer software licenses are 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 programmes are recognized as expense when incurred.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) 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. 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:

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

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

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

Construction in progress represents buildings under construction and plant 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.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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.

(n) Non-current 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 and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

(o) 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.

(p) Advanced payments on acquisition of aircraft

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

(q) Flight equipment spare parts

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

(r) 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.

(s) Cash and cash equivalents

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

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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.

(u) 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.

(v) Leases

(i) A Group company is the lessee

Finance leases

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

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.

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.

(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.

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) 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.

(x) 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.

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Derivative financial instruments (continued)

- (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.

(y) Available-for-sale financial assets

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

(z) 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.

(aa) Comparatives

Where necessary, prior year amounts have been reclassified to conform with changes in presentation in the current year.

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 programme 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 certain risk exposures.

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 Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

(i) Foreign currency risk

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

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

The Group also has exposure to foreign currency risk in respect of net cash inflow denominated in Japanese Yen from ticket sales in overseas branch office after payment of expenses. The Group entered into certain foreign exchange forward option contracts to manage this foreign currency risk. Details of foreign currency forward contracts are disclosed in Note 37(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 currency risk.

| | 2009 | | | 2008 | | |
|--|----------------|-----------------|----------------|----------------|-----------------|----------------|
| | USD RMB'000 | Euro RMB'000 | JPY RMB'000 | USD RMB'000 | Euro RMB'000 | JPY RMB'000 |
| Trade and other receivables | 1,306,616 | 56,663 | 93,778 | 1,809,601 | 42,706 | 56,003 |
| Cash and cash equivalents | 253,776 | 43,519 | 30,889 | 494,249 | 126,695 | 37,657 |
| Trade and other payables | (416,288) | (462) | - | (417,910) | (1,476) | (363) |
| Obligation under finance leases | (17,604,920) | - | - | (19,444,259) | - | (83,971) |
| Borrowings | (13,157,341) | (113,254) | - | (13,007,687) | (111,658) | - |
| Currency derivatives at notional value | 559,402 | - | - | 825,170 | - | - |
| Net balance sheet Exposure | (29,058,755) | (13,534) | 124,667 | (29,740,837) | 56,267 | 9,326 |

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

| | 2009 | | 2008 | |
|--------------|--------------------------------------|---|--------------------------------------|---|
| | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 |
| US dollars | 1,482,555 | 2,048 | 1,602,641 | 34,364 |
| Euro | 667 | - | (2,813) | - |
| Japanese Yen | (6,233) | - | (466) | - |

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. 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. During the year ended December 31, 2009, the Group's borrowings at variable rates were primarily denominated in US dollars. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in Notes 31 and 37(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 Group also entered certain interest rate swaps to swap fixed rates into variable rates.

The following table details the interest rate profiles of the Group's interest-bearing financial instruments at the balance sheet date.

| | 2009 RMB'000 | 2008 RMB'000 |
|--|-----------------|-----------------|
| Floating rate instruments | | |
| Cash and cash equivalents | 1,735,248 | 3,451,010 |
| Borrowings | (22,477,854) | (26,855,469) |
| Obligations under finance leases | (19,241,091) | (20,482,615) |
| Interest rate swaps at notional amount | 2,179,378 | 2,675,740 |
| | (37,804,319) | (41,211,334) |
| | 2009 RMB'000 | 2008 RMB'000 |
| Fixed rate instruments | | |
| Borrowings | (2,857,095) | (8,245,903) |
| Obligations under finance leases | (129,144) | (326,284) |
| Interest rate swaps at notional amount | 466,817 | 543,041 |
| | (2,519,422) | (8,029,146) |

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 if interest rate had been 25 basis points higher with all other variables held constant.

| | 2009 | | 2008 | |
|---------------------------|--|--|--|--|
| | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 |
| Floating rate instruments | (94,441) | (10,952) | (105,673) | 10,299 |

(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 32% of the Group's operating expenses (2008: 33%). The Group has entered into certain financial derivatives to hedge against fuel price risk. Details of crude oil option contracts are disclosed in Note 37(c) to the financial statements.

For the year ended December 31, 2009, 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 RMB613 million higher/lower.

For the year ended December 31, 2009, if fuel price had been 5% higher/lower with all other variables held constant, the impact on financial derivatives is shown below.

| | 2009 | | 2008 | |
|----------------------------------|--|--|--|--|
| | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 |
| Net increase in fuel price by 5% | 211,435 | - | 497,879 | - |
| Net decrease in fuel price by 5% | (246,054) | - | (500,690) | - |

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

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

A significant portion of the Group's air tickets are sold by 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 RMB560 million as at December 31, 2009 (2008: RMB515 million).

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 25.

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

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

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

The Group operates with a working capital deficit. As at December 31, 2009, the Group's net current liabilities amounted to RMB28,648 million (2008: RMB43,458 million). For the year ended December 31, 2009, the Group recorded a net cash inflow from operating activities of RMB3,429 million (2008: inflow RMB2,856 million), a net cash outflow from investing activities and financing activities of RMB5,150 million (2008: outflow RMB1,017 million), and an decrease in cash and cash equivalents of RMB1,716 million (2008: increase RMB1,796 million).

The Board believes that cash from operations and short and long term bank 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 Board believes 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)).

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

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|----------------------------------|--------------------------------|--|--|----------------------------|
| At December 31, 2008 | | | | |
| Borrowings | 27,785,310 | 4,515,962 | 3,969,413 | 846,074 |
| Derivative financial instruments | 6,456,075 | 15,448 | 19,416 | 150,660 |
| Obligations under finance leases | 2,765,969 | 2,704,499 | 7,805,669 | 11,868,053 |
| Trade and other payables | 15,183,406 | - | 320,354 | 410,076 |
| Total | 52,190,760 | 7,235,909 | 12,114,852 | 13,274,863 |
| At December 31, 2009 | | | | |
| Borrowings | 12,886,380 | 3,174,883 | 6,523,487 | 4,356,734 |
| Derivative financial instruments | 1,006,286 | 12,095 | 6,364 | 104,886 |

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| | | | | |
|----------------------------------|------------|-----------|------------|------------|
| Obligations under finance leases | 2,466,415 | 2,388,362 | 7,405,048 | 8,752,687 |
| Trade and other payables | 16,161,893 | 9,104 | 313,092 | 364,172 |
| Total | 32,520,974 | 5,584,444 | 14,247,991 | 13,578,479 |

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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, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio, which is calculated as total liabilities divided by total assets. The gearing ratios at December 31, 2009 and 2008 were as follows.

| | 2009 | 2008 |
|-------------------|------------|------------|
| | RMB'000 | RMB'000 |
| Total liabilities | 70,175,211 | 85,691,399 |
| Total assets | 71,851,392 | 73,051,890 |
| Gearing ratio | 0.98 | 1.17 |

(c) Fair value estimation of financial assets and liabilities

Effective January 1, 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy.

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).

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, 2009.

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|--------------------|--------------------|--------------------|------------------|
| Assets | | | | |
| Financial derivatives | | | | |
| — Crude oil option contracts (Note 37(c)) | - | 3,490 | - | 3,490 |
| Available-for-sale financial assets | - | - | 57,269 | 57,269 |
| Total | - | 3,490 | 57,269 | 60,759 |
| Liabilities | | | | |
| Financial derivatives | | | | |
| — Crude oil option contracts (Note 37(c)) | - | 897,744 | - | 897,744 |
| — Interest rate swaps (Note 37(a)) | - | 154,871 | - | 154,871 |
| — Forward foreign exchange contracts (Note 37(b)) | - | 77,016 | - | 77,016 |
| Total | - | 1,129,631 | - | 1,129,631 |

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 maximize 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.

Specific valuation techniques used to value financial instruments include:

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Quoted market prices or dealer quotes for similar instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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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) 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(m) to the financial statements. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger- kilometers yield level, load factor, aircraft utilization rate and discount rates, etc.

(b) 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.

(c) Frequent flyer programme

The Company operates a frequent flyer programme called “Eastern Miles” that provides travel awards to programme members based on accumulated miles. A portion of passengers’ revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired. The deferment of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilization of these benefits. Any remaining unutilized benefits are recognized as deferred revenue.

(d) Depreciation of components related to overhaul costs

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

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

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

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(f) Retirement benefits

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and 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(w) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is disclosed in Note 35 to the financial statements.

(g) 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.

(h) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

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 and other extended transportation services.

| | Year ended December 31 | | |
|-----------------------|------------------------|-----------------|-----------------|
| | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Traffic revenues | | | |
| – Passenger | 31,435,980 | 27,875,334 | 31,237,518 |
| – Cargo and mail | 3,017,349 | 3,771,615 | 4,279,036 |
| – Fuel surcharges | 2,471,501 | 7,197,320 | 5,147,061 |
| Ground service income | 974,732 | 1,252,468 | 977,736 |
| Cargo handling income | 296,827 | 337,773 | 355,876 |
| Commission income | 206,137 | 183,129 | 152,947 |
| Others | 587,133 | 454,918 | 383,719 |
| | 38,989,659 | 41,072,557 | 42,533,893 |

Note:

Pursuant to the relevant tax rules and regulations in the PRC, the major elements of the Group'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%. The business tax incurred and set off against the above Group's revenues for the year ended December 31, 2009 amounted to approximately RMB1,019 million (2008: RMB891 million).

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER OPERATING INCOME AND OTHER GAINS

| | Year ended December 31 | | |
|---|------------------------|---------|---------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Other operating income | | | |
| - Refund of civil aviation infrastructure levies (Note (a)) | 831,749 | - | - |
| - Other government subsidies (Note (b)) | 456,268 | 405,163 | 487,562 |
| | 1,288,017 | 405,163 | 487,562 |
| Other gains | | | |
| - Gains on disposal of property, plant and equipment (Note (b)) | - | 267,084 | - |

Note:

(a) Pursuant to Cai Jian (2009) No. 4 issued by Ministry of Finance and Civil Aviation Administration of China in 2009, the civil aviation infrastructure levies collected from PRC domestic airlines for the period from July 1, 2008 to June 30, 2009 would be refunded. The amount for the year ended December 31, 2009 represents the refunds of civil aviation infrastructure levies received by the Group.

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

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION

(a) CODM, office of the General Manager, reviews the Group's internal reporting in order to assess performance and allocate resources.

The Group has one reportable operating segment, reported as "airline operations", which are structured and managed separately. The "airline operations" comprises the provision of air passenger, air cargo services, mail and ground logistics.

Other services including aviation training, air catering and other miscellaneous services are not included within the reportable operating segment, as they are not included in the internal report 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. As such, the amount of each material reconciling items from the Group's reportable segment revenue, profit or loss, assets and liabilities arising from different accounting policies are set out in Note 7(c) below.

The segment results for the year ended December 31, 2009 are as follows:

| | Airline Operations RMB'000 | Other Segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
|--|-------------------------------|---------------------------|------------------------|-------------------------|------------------|
| Reportable segment revenue from external customers | 39,727,636 | 103,695 | - | - | 39,831,331 |
| Inter-segment sales | - | 126,124 | (126,124) | - | - |
| Reportable segment revenue | 39,727,636 | 229,819 | (126,124) | - | 39,831,331 |
| Reportable segment profit before income tax | 644,307 | 18,563 | - | (22,749) | 640,121 |
| Reportable segment assets | 69,850,127 | 1,153,130 | (137,660) | 1,153,084 | 72,018,681 |
| Reportable segment liabilities | 68,068,474 | 474,739 | (137,660) | - | 68,405,553 |
| Other segment information | | | | | |
| Depreciation and amortization | 5,278,242 | 54,494 | - | - | 5,332,736 |
| Impairment losses | 118,022 | 202 | - | - | 118,224 |
| Capital expenditure | 8,112,355 | 70,386 | - | - | 8,182,741 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION (CONTINUED)

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

| | Airline Operations RMB'000 | Other Segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
|--|-------------------------------|---------------------------|------------------------|-------------------------|------------------|
| Reportable segment revenue from external customers | 41,745,906 | 96,455 | - | - | 41,842,361 |
| Inter-segment sales | - | 171,213 | (171,213) | - | - |
| Reportable segment revenue | 41,745,906 | 267,668 | (171,213) | - | 41,842,361 |
| Reportable segment (loss)/profit before income tax | (14,136,843) | 45,898 | - | 105,837 | (13,985,108) |
| Reportable segment assets | 70,762,308 | 1,183,416 | (135,637) | 1,373,919 | 73,184,006 |
| Reportable segment liabilities | 83,861,674 | 523,120 | (135,637) | - | 84,249,157 |
| Other segment information | | | | | |
| Depreciation and amortization | 4,588,298 | 122,974 | - | - | 4,711,272 |
| Impairment losses | 2,020,971 | 1,207 | - | - | 2,022,178 |
| Capital expenditure | 11,526,771 | 20,513 | - | - | 11,547,284 |

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

| | Airline Operations RMB'000 | Other Segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
|--|-------------------------------|---------------------------|------------------------|-------------------------|------------------|
| Reportable segment revenue from external customers | 43,411,535 | 129,693 | - | - | 43,541,228 |
| Inter-segment sales | - | 98,677 | (98,677) | - | - |
| Reportable segment revenue | 43,411,535 | 228,370 | (98,677) | - | 43,541,228 |
| Reportable segment profit before income tax | 536,066 | 33,588 | - | 155,180 | 724,834 |
| Reportable segment assets | 64,450,024 | 1,138,366 | (75,230) | 991,321 | 66,504,481 |
| Reportable segment liabilities | 62,857,784 | 499,035 | (75,230) | - | 63,281,589 |
| Other segment information | | | | | |
| Depreciation and amortization | 4,490,981 | 46,078 | - | - | 4,537,059 |
| Impairment losses | 224,445 | 269 | - | - | 224,714 |
| Capital expenditure | 12,347,999 | 212,607 | - | - | 12,560,606 |

*

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.

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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 segment are analyzed based on the following criteria:

1. Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan, (collectively known as "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.

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

| | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|-----------------|
| Domestic (the PRC, excluding Hong Kong, Macau and Taiwan) | 27,482,611 | 24,810,917 | 24,765,093 |
| Regional (Hong Kong, Macau and Taiwan) | 1,986,964 | 2,496,303 | 2,752,033 |
| International | 10,361,756 | 14,535,141 | 16,024,102 |
| Total | 39,831,331 | 41,842,361 | 43,541,228 |

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

(c) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities to the consolidated figures as reported in the consolidated financial statements:

| | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|-----------------|
| Revenue | | | |
| Reportable segment revenue | 39,831,331 | 41,842,361 | 43,541,228 |
| – Reclassification of business tax and expired sales in advance of carriage | (841,672) | (769,804) | (1,007,335) |
| Consolidated revenue | 38,989,659 | 41,072,557 | 42,533,893 |

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)

| | | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|--|-------|-----------------|---------------------|-----------------|
| Profit/(loss) before income tax | | | | |
| Reportable segment profit/(loss) | | 640,121 | (13,985,108) | 724,834 |
| – Difference in depreciation and impairment charges for aircraft, engines and flight equipment | (ii) | (64,988) | (517,730) | (245,052) |
| – Provision for post-retirement benefits | (iii) | (334,348) | (110,458) | (81,445) |
| – Difference in goodwill impairment | (iv) | - | (688,311) | - |
| – Others | | 8,420 | 45,598 | (20,399) |
| Consolidated profit/(loss) before income tax | | 249,205 | (15,256,009) | 377,938 |

| | | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|--|------|-------------------|-------------------|-------------------|
| Assets | | | | |
| Reportable segment assets | | 72,018,681 | 73,184,006 | 66,504,481 |
| – Difference in depreciation and impairment charges for aircraft, engines and flight equipment | (ii) | 167,912 | 232,900 | 739,053 |
| – Reversal of revaluation surplus relating to land use rights | (v) | (360,626) | (369,046) | (377,466) |
| – Difference in goodwill impairment | | - | - | 688,311 |
| – Others | | 25,425 | 4,030 | 186,722 |
| Consolidated total assets | | 71,851,392 | 73,051,890 | 67,741,101 |

| | | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|--|-------|-------------------|-------------------|-------------------|
| Liabilities | | | | |
| Reportable segment liabilities | | 68,405,553 | 84,249,157 | 63,281,589 |
| – Provision for post-retirement benefits | (iii) | 1,849,933 | 1,515,585 | 1,405,127 |
| – Others | | (80,275) | (73,343) | 121,829 |
| Consolidated total liabilities | | 70,175,211 | 85,691,399 | 64,808,545 |

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.
- (ii) The difference is attributable to the differences in the useful lives and residual values of aircraft, engines and rotables adopted for depreciation purpose in prior years under PRC GAAP and IFRS. Despite the depreciation policies of these assets have been unified under IFRS and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which results in the differences in the carrying amounts and related depreciation changes under IFRS and PRC Accounting Standards.
- (iii) In accordance with the PRC Accounting Standards, 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.
- (iv) The basis of recognizing the value of the underlying assets and liabilities acquired in prior years was different under the PRC Accounting Standards and IFRS. Accordingly the amount of goodwill and impairment of goodwill was different.
- (v) Under the PRC Accounting Standards, land use rights injected by the parent company as capital contribution upon restructuring for listing are stated at valuation less accumulated amortization. Under IFRS, land use rights are recorded as prepaid operating leases at historical cost which was nil at the time of listing.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. GAIN/(LOSS) ON FINANCIAL DERIVATIVES

| | Year ended December 31, | | |
|--|-------------------------|-------------|----------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Gain/(loss) arising from fair value movements of financial derivatives | | | |
| - Crude oil option contracts (Note 37 (c)) | 3,743,746 | (6,255,791) | 96,576 |
| - Other derivatives (Note 37(a) & (b)) | 30,942 | (145,201) | (12,611) |
| | 3,774,688 | (6,400,992) | 83,965 |

9. WAGES, SALARIES AND BENEFITS

| | Year ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Wages, salaries, bonus and allowances | 3,502,069 | 3,259,465 | 3,198,734 |
| Employee welfare and benefits | 255,214 | 227,206 | 246,626 |
| Defined contribution retirement schemes (Note 35(a)) | 521,596 | 452,879 | 373,253 |
| Post-retirement benefits (Note 35(b)) | 440,878 | 200,603 | 170,670 |
| Staff housing fund (Note 36(a)) | 323,348 | 281,776 | 285,000 |
| Staff housing allowance (Note 36(b)) | 105,772 | 123,383 | 53,114 |
| | 5,148,877 | 4,545,312 | 4,327,397 |

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. IMPAIRMENT LOSSES

| | Year ended December 31, | | |
|--|-------------------------|-----------|---------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Goodwill impairment (Note (a)) | - | 993,143 | - |
| Impairment charge on property, plant and equipment (Note (b)) | 16,396 | 1,441,904 | - |
| Impairment charge on non-current assets held for sale (Note (c)) | 35,443 | 235,273 | 130,921 |
| Other impairment charge | 57,578 | 306,358 | 96,535 |
| | 109,417 | 2,976,678 | 227,456 |

Note:

- (a) For the year ended December 31, 2008, the Group recognized an impairment charge of RMB993 million against goodwill which had previously been recognized in the connection with the Group's acquisitions of airline businesses (Note 18).
- (b) In 2008, the Group performed an impairment test on property, plant and equipment ("PP&E") as at December 31, 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft model and the related equipment, reflecting their relatively lower operation efficiency and management's intention to retire them in the near future. In determining the recoverable amounts of the related assets, management had compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values.
- (c) After assessing the fair value less costs to sell as at the balance sheet date which was primarily determined by reference to estimated market value, an additional impairment loss of RMB35 million (2008: RMB235 million) was made against certain aircraft and related flight equipment which have been classified as "non-current assets held for sale" (Note 41).

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. OPERATING PROFIT/(LOSS)

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

| | Year ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Crediting: | | | |
| Gain on disposals of property, plant and equipment | - | 267,084 | - |
| Charging: | | | |
| Amortization of intangible assets | 109,799 | 110,151 | 106,703 |
| Depreciation of property, plant and equipment | | | |
| - Leased | 2,189,310 | 1,913,877 | 1,868,481 |
| - Owned | 2,878,040 | 2,626,652 | 2,719,704 |
| Amortization of lease prepayments | 25,686 | 25,940 | 24,847 |
| Consumption of flight equipment spare parts | 351,151 | 476,282 | 468,888 |
| Provision for impairment of trade and other receivables | 8,807 | 34,760 | 10,481 |
| Auditors' remuneration | 12,000 | 18,000 | 18,439 |

12. FINANCE INCOME

| | Year ended December 31, | | |
|----------------------------|-------------------------|-----------|-----------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Exchange gains, net (Note) | 95,379 | 1,972,350 | 2,043,608 |
| Interest income | 109,925 | 89,275 | 96,849 |
| | 205,304 | 2,061,625 | 2,140,457 |

Note:

The exchange gain for the years ended December 31, 2009 and 2008 primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases at year-end exchange rates.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. FINANCE COSTS

| | Year ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest relating to obligations under finance leases | 486,845 | 646,079 | 702,329 |
| Interest on loans from banks and financial institutions | 1,407,053 | 1,940,171 | 1,599,535 |
| Interest relating to notes payable | 83,964 | 84,050 | 72,779 |
| Interest relating to long-term payables | - | - | 3,406 |
| | 1,977,862 | 2,670,300 | 2,378,049 |
| Less: Amounts capitalized into advanced payments on acquisition of aircraft (Note) | (223,222) | (342,153) | (399,499) |
| | 1,754,640 | 2,328,147 | 1,978,550 |

Note:

The average interest rate used for interest capitalization is 4.50% per annum for the year ended December 31, 2009 (2008: 5.43%, 2007: 5.90%).

14. INCOME TAX

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

| | Year ended December 31, | | |
|------------------------------|-------------------------|---------|----------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Provision for PRC income tax | 60,398 | 35,432 | 72,918 |
| Deferred taxation (Note 34) | (7,851) | 38,484 | (49,155) |
| | 52,547 | 73,916 | 23,763 |

Prior to 2008, the Company and certain of its subsidiaries (the "Pudong Subsidiaries") located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong 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 March 16, 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 the next five years from 2008. For the year ended December 31, 2009, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries was 20% (2008: 18%, 2007: 15%). Other subsidiaries of the Company, except for those incorporated in Hong Kong and subject to Hong Kong corporate income tax rate of 16.5% (2008: 16.5%, 2007: 16.5%), are generally subject to the PRC standard corporate tax rate of 25% (2008: 25%, 2007: 33%) under the New CIT Law.

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 home country of the Company as follows:

| | Year ended December 31, | | |
|--|-------------------------|-----------------|-----------------|
| | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Profit/(loss) before income tax | 249,205 | (15,256,009) | 377,938 |
| Adjusted by: | | | |
| Share of result of associates and jointly controlled entities | (22,749) | (93,718) | (88,398) |
| | 226,456 | (15,349,727) | 289,540 |
| Tax calculated at enacted tax rate of 20% (2008: 18% and 2007: 15%) | 45,856 | (2,762,951) | 43,431 |
| Effect attributable to subsidiaries charged at tax rates of 16.5% or 25% | (18,353) | (67,505) | (49,578) |
| Expenses not deductible for tax purposes | 6,367 | 6,462 | 12,031 |
| Effect of tax rate change on deferred tax | - | - | 24,289 |
| Utilization of previously unrecognized tax losses | (30,014) | - | (157,531) |
| Write off of deferred tax asset recognized by a subsidiary in prior year | - | 34,773 | - |
| Unrecognized tax losses for the year | 300,830 | 1,093,350 | 54,647 |
| Utilization of previously unrecognized deductible temporary differences | (1,000,624) | - | - |
| Unrecognized temporary differences for the year | 748,485 | 1,769,787 | 96,474 |
| Tax charge | 52,547 | 73,916 | 23,763 |

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended December 31, 2009, years ended December 31, 2008 and Years ended December 31, 2007, as there are 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 year ended 31 December 2009 (2008: Nil, 2007: Nil).

16. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB1,074 million (2008: a loss of RMB13,877 million, 2007: a profit of RMB505 million).

17. EARNINGS/(LOSS) PER SHARE

The calculation of basic earning per share is based on the profit attributable to equity holders of the Company of RMB169 million (2008: a loss of RMB15,269 million, 2007: a profit of RMB 379 million) and the weighted average number of shares of 6,436,828,000 (2008: 4,866,950,000, 2007: 4,866,950,000) in issue during the year ended December 31, 2009.

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 | Sponsorship fee (Note (b)) RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---------------------------------|-----------------------------------|--|---------------------------------|------------------|
| Cost | | | | |
| At January 1, 2008 | 993,143 | 320,000 | 132,141 | 1,445,284 |
| Other additions | - | - | 23,439 | 23,439 |
| At December 31, 2008 | 993,143 | 320,000 | 155,580 | 1,468,723 |
| At January 1, 2009 | 993,143 | 320,000 | 155,580 | 1,468,723 |
| Other additions | - | - | 14,570 | 14,570 |
| At December 31, 2009 | 993,143 | 320,000 | 170,150 | 1,483,293 |
| Accumulated amortization | | | | |
| At January 1, 2008 | - | 135,064 | 65,514 | 200,578 |
| Charge for the year | - | 82,194 | 27,957 | 110,151 |
| At December 31, 2008 | - | 217,258 | 93,471 | 310,729 |
| At January 1, 2009 | - | 217,258 | 93,471 | 310,729 |
| Charge for the year | - | 82,194 | 27,605 | 109,799 |
| At December 31, 2009 | - | 299,452 | 121,076 | 420,528 |
| Impairment | | | | |
| At January 1, 2009 | 993,143 | - | - | 993,143 |
| At December 31, 2009 | 993,143 | - | - | 993,143 |
| Net book amount | | | | |
| At December 31, 2008 | - | 102,742 | 62,109 | 164,851 |
| At December 31, 2009 | - | 20,548 | 49,074 | 69,622 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS (CONTINUED)

Notes:

(a) Impairment tests for goodwill

For the year ended December 31, 2008, the Group recognized impairment charge of RMB993 million, against goodwill which had previously been recognized in connection with the acquisition of airline businesses. The impairment charge recognized represented the amount by which the CGU's carrying amount exceeded its recoverable amount.

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

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

(b) Sponsorship fees

In March 2006, the Company entered into a sponsorship agreement (the "Sponsorship Agreement") with the Bureau of 2010 Expo Shanghai (the "Bureau") which designated the Group as the exclusive airline passenger carrier in the PRC to sponsor the 2010 Shanghai Expo. The Company will be entitled to a number of rights, including but not limited to the use of the Expo logo in the Group's products, priority to purchase advertising space at the Expo site etc. In return, the Company is required to pay a total sponsorship fee of RMB320 million, RMB160 million of which would be paid in cash by installments, the remaining RMB160 million would be settled by value-in-kind services ("VIK") (in the form of goods or services) to support the 2010 Shanghai Expo. Accordingly, an intangible asset has been recognized and amortized on straight-line basis over the period from the effective date of the Sponsorship Agreement to March 13, 2010. The outstanding sponsorship fee of RMB116 million (2008: 178 million) has been recognized as other payables (Note 29) in the Group's balance sheet.

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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 | | Other property, plant and equipment | | | Total |
|--|---|------------------------------|-------------------------------------|---------------|-----------------------------|-------------|
| | Owned | Held under finance leases | Buildings | and equipment | Construction in progress | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cost | | | | | | |
| At January 1, 2009 | 34,410,274 | 35,898,970 | 3,411,945 | 4,095,257 | 573,462 | 78,389,908 |
| Reclassification to owned assets upon expiries of the finance leases | 1,437,513 | (1,437,513) | - | - | - | - |
| Sales and finance lease back (Note (b)) | (1,984,281) | 590,253 | - | - | - | (1,394,028) |
| Transfers from construction in progress | - | - | 138,057 | 23,704 | (161,761) | - |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 3,482,854 | - | - | - | - | 3,482,854 |
| Other additions | 4,616,562 | 448,861 | 19,849 | 270,497 | 355,051 | 5,710,820 |
| Other disposals | (690,491) | (477,880) | (25,481) | (244,109) | - | (1,437,961) |
| At December 31, 2009 | 41,272,431 | 35,022,691 | 3,544,370 | 4,145,349 | 766,752 | 84,751,593 |
| Accumulated depreciation | | | | | | |
| At January 1, 2009 | 14,583,418 | 6,526,300 | 781,786 | 2,360,080 | - | 24,251,584 |
| Reclassification to owned assets upon expiries of the finance leases | 726,827 | (726,827) | - | - | - | - |
| Sales and finance lease back | (1,148,938) | - | - | - | - | (1,148,938) |
| Charge for the year | 2,383,158 | 2,189,310 | 109,872 | 385,010 | - | 5,067,350 |
| Other disposals | (683,869) | (477,880) | (6,756) | (171,521) | - | (1,340,026) |
| At December 31, 2009 | 15,860,596 | 7,510,903 | 884,902 | 2,573,569 | - | 26,829,970 |
| Impairment | | | | | | |
| At January 1, 2009 | 966,191 | 473,393 | 13,094 | 550 | 6,623 | 1,459,851 |
| Charge for the year | - | - | - | - | 16,396 | 16,396 |
| Sales and finance lease back | (245,090) | - | - | - | - | (245,090) |

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| | | | | | | |
|------------------------|------------|------------|-----------|-----------|---------|------------|
| Reversal upon disposal | - | - | (13,094) | - | - | (13,094) |
| At December 31, 2009 | 721,101 | 473,393 | - | 550 | 23,019 | 1,218,063 |
| Net book amount | | | | | | |
| At December 31, 2009 | 24,690,734 | 27,038,395 | 2,659,468 | 1,571,230 | 743,733 | 56,703,560 |
| At January 1, 2009 | 18,860,665 | 28,899,277 | 2,617,065 | 1,734,627 | 566,839 | 52,678,473 |

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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 | | Other property, plant and equipment | | Construction in progress RMB'000 | Total RMB'000 |
|--|---|---|-------------------------------------|--------------------------|--|------------------|
| | Owned RMB'000 | Held under finance leases RMB'000 | Buildings RMB'000 | and equipment RMB'000 | | |
| Cost | | | | | | |
| At January 1, 2008 | 32,928,494 | 27,815,704 | 2,825,748 | 3,883,784 | 480,791 | 67,934,521 |
| Reclassification to owned assets upon expiries of the finance leases | 3,094,561 | (3,094,561) | - | - | - | - |
| Sales and finance lease back | (3,085,419) | 3,085,419 | - | - | - | - |
| Transfers from construction in progress | - | - | 233,746 | 19,313 | (253,059) | - |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 411,153 | 3,816,843 | - | - | - | 4,227,996 |
| Other additions | 1,781,272 | 4,683,699 | 360,498 | 335,220 | 345,730 | 7,506,419 |
| Other disposals | (719,787) | (408,134) | (8,047) | (143,060) | - | (1,279,028) |
| At December 31, 2008 | 34,410,274 | 35,898,970 | 3,411,945 | 4,095,257 | 573,462 | 78,389,908 |
| Accumulated depreciation | | | | | | |
| At January 1, 2008 | 13,165,501 | 4,820,675 | 673,892 | 1,986,752 | - | 20,646,820 |
| Reclassification to owned assets upon expiries of the finance leases | 1,580,097 | (1,580,097) | - | - | - | - |
| Sales and finance lease back | (1,779,979) | 1,779,979 | - | - | - | - |
| Charge for the year | 2,138,172 | 1,913,877 | 108,826 | 379,654 | - | 4,540,529 |
| Other disposals | (520,373) | (408,134) | (932) | (6,326) | - | (935,765) |
| At December 31, 2008 | 14,583,418 | 6,526,300 | 781,786 | 2,360,080 | - | 24,251,584 |
| Impairment | | | | | | |
| At January 1, 2008 | - | - | 13,094 | 550 | 4,303 | 17,947 |
| Charge for the year | 966,191 | 473,393 | - | - | 2,320 | 1,441,904 |
| At December 31, 2008 | 966,191 | 473,393 | 13,094 | 550 | 6,623 | 1,459,851 |

Net book amount

| | | | | | | |
|----------------------|------------|------------|-----------|-----------|---------|------------|
| At December 31, 2008 | 18,860,665 | 28,899,277 | 2,617,065 | 1,734,627 | 566,839 | 52,678,473 |
| At January 1, 2008 | 19,762,993 | 22,995,029 | 2,138,762 | 1,896,482 | 476,488 | 47,269,754 |

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) As at December 31, 2009, certain aircraft and buildings owned by the Group with an aggregate net book amount of approximately RMB13,678 million (2008: RMB8,723 million) were pledged as collateral under certain loan arrangements (Note 31).

(b) During the year ended December 31, 2009, certain aircrafts owned by the Group with an aggregate net book value of approximately RMB590 million (cost of approximately RMB1,984 million) were sold to a third party at net book value and leased back by the Group under finance lease.

20. LEASE PREPAYMENTS

| | December 31 | |
|---------------------------------|-------------|-----------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Cost | | |
| At January 1 | 1,230,068 | 1,175,104 |
| Other additions | - | 54,964 |
| At December 31 | 1,230,068 | 1,230,068 |
| Accumulated amortization | | |
| At January 1 | 233,547 | 207,607 |
| Charge for the year | 25,686 | 25,940 |
| At December 31 | 259,233 | 233,547 |
| Net book amount | | |
| At December 31 | 970,835 | 996,521 |

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, 2009, the majority of these land use rights had remaining terms ranging from 37 to 52 years (2008: from 38 to 53 years).

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

| | December 31 | |
|--|-------------|-------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| At January 1 | 6,413,554 | 6,695,573 |
| Additions | 1,927,252 | 3,603,824 |
| Interest capitalized (Note 13) | 223,222 | 342,153 |
| Transfers to property, plant and equipment (Note 19) | (3,482,854) | (4,227,996) |
| At December 31 | 5,081,174 | 6,413,554 |

Included in the Group's balance as at December 31, 2009, the amount of accumulated interest capitalized is RMB517 million (2008: RMB518 million).

22. INVESTMENTS IN ASSOCIATES

| | December 31 | |
|-------------------------------|-------------|---------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Unlisted investments, at cost | 568,417 | 808,417 |
| Share of results/reserves | 154,605 | 171,902 |
| | 723,022 | 980,319 |

The movement on investments in associates is as follows:

| | December 31 | |
|---|-------------|----------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| At January 1 | 980,319 | 601,119 |
| Costs of additional investments | - | 384,186 |
| Disposal of shares in an associate (Note) | (210,000) | - |
| Transfer to available-for-sale assets upon disposal of shares | (30,000) | - |
| Disposal of an indirectly held associate | - | (3,820) |
| Share of results of associates | (46,602) | 69,668 |
| Share of revaluation on available for sale investments held by associates | (585) | (19,080) |
| Share of other equity movement of an associate | 49,692 | - |
| Dividend received during the year | (19,802) | (51,754) |
| At December 31 | 723,022 | 980,319 |

On April 13, 2009, the Company entered into an agreement with China Aviation Industry Corporation to dispose 35% interests in Joy Air Co., Ltd ("Joy Air") for a consideration of RMB210 million. After completion of the disposal, the Company holds a 5% interests in Joy Air and classifies the investment as available-for-sale financial assets.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

| Company | Place and date of establishment | Paid-up capital | | Attributable Equity interest | | Principal activities |
|--|---------------------------------|-----------------|-----------------|------------------------------|------|---|
| | | 2009 RMB'000 | 2008 RMB'000 | 2009 | 2008 | |
| Eastern Air Group Finance Co., Ltd. ("EAGF") | 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 |
| Jiangsu Huayu General Aviation Co., Ltd. | PRC December 1, 2004 | 110,000 | 110,000 | 27% | 27% | Provision of aviation support services |
| Eastern Aviation Import & Export Co., Ltd ("EAIEC") | PRC June 9, 1993 | 80,000 | 80,000 | 45% | 45% | Provision of aviation equipment, spare parts purchase |
| Collins Aviation Maintenance Service Shanghai Ltd. | PRC September 27, 2002 | USD 7,000 | USD 7,000 | 35% | 35% | Provision of airline electronic product maintenance services |
| Shanghai Dongmei Aviation Travel Co., Ltd. ("SDATC") | PRC October 17, 2004 | 51,369 | 51,369 | 27% | 27% | Provision of traveling and accommodation agency services |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. INVESTMENTS IN ASSOCIATES (CONTINUED)

| Company | Place and date of establishment | Paid-up capital | | Attributable Equity interest | | Principal activities |
|---|---------------------------------|-----------------|------------|------------------------------|------|--|
| | | 2009 | 2008 | 2009 | 2008 | |
| | | 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 |
| Eastern Aviation Advertising Service Co., Ltd. ("CAASC") | PRC March 4, 1986 | 50,000 | 50,000 | 45% | 45% | Provision of aviation advertising agency services |
| Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited (Note (a)) | PRC March 28, 2008 | USD 39,500 | USD 39,500 | 51% | 51% | Provision of maintenance of aircraft, engine and other related components maintenance services |

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. INVESTMENTS IN ASSOCIATES (CONTINUED)

Note:

(a) In 2008, the Company entered into an agreement with United Technologies International Corporation (“Technologies International”) to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited (“Shanghai P&W”). Shanghai P&W has a registered capital of USD40 million in which the Company holds a 51% interests. During the year ended December 31, 2009, the Company contributed USD20 million in cash to Shanghai P&W. According to the agreement, Technologies International has the power to govern the financial and operating policies as such 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 RMB’000 | Liabilities RMB’000 | Revenues RMB’000 | Profit RMB’000 |
|------|-------------------|------------------------|---------------------|-------------------|
| 2009 | 3,076,841 | 2,353,819 | 911,855 | (46,602) |
| 2008 | 4,326,145 | 3,345,826 | 913,845 | 69,668 |

23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | 2009 RMB’000 | 2008 RMB’000 |
|--|-----------------|-----------------|
| Unlisted investments, at cost | 270,866 | 270,208 |
| Share of post-acquisition results/reserves | 101,927 | 92,124 |
| | 372,793 | 362,332 |

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

| | 2009 RMB’000 | 2008 RMB’000 |
|--|-----------------|-----------------|
| At January 1 | 362,332 | 336,966 |
| Dividend received during the year | (14,000) | - |
| Share of results | 23,803 | 24,050 |
| Amortization of previously unrecognized gain | 658 | 1,316 |
| At December 31 | 372,793 | 362,332 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

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 |
|--|---------------------------------|-----------------|-----------------|------------------------------|------|--|
| | | 2009 RMB'000 | 2008 RMB'000 | 2009 | 2008 | |
| Shanghai Technologies Aerospace Co., Ltd. ("STA") (Note (a)) | PRC September 28, 2004 | USD 73,000 | USD 73,000 | 51% | 51% | Provision of repair and maintenance services |
| Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd ("Wheels & Brakes") | PRC December 28, 1995 | USD 2,100 | USD 2,100 | 40% | 40% | Provision of spare parts repair and maintenance services |
| Eastern China Kaiya System Integration Co., Ltd. | PRC May 21, 1999 | 10,000 | 10,000 | 41% | 41% | Provision of computer systems development |

Notes:

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

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

| | Assets RMB'000 | Liabilities RMB'000 | Revenues RMB'000 | Profit RMB'000 |
|------|-------------------|------------------------|---------------------|-------------------|
| 2009 | 431,326 | 58,533 | 205,244 | 23,803 |
| 2008 | 404,888 | 42,556 | 187,997 | 24,050 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. OTHER LONG-TERM ASSETS

| | December 31, | |
|---|--------------|---------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Deposits relating to aircraft under operating leases (Note (a)) | 374,233 | 509,887 |
| Prepaid flight training fees (Note (b)) | 481,603 | 337,597 |
| Rental and renovation deposits | 23,586 | 26,460 |
| Other long-term assets | 46,890 | 67,612 |
| | 926,312 | 941,556 |

Notes:

(a) The fair values of deposits relating to aircraft held under operating leases of the Group is RMB335 million (2008: RMB473 million), which is determined using the expected future refunds discounted at market interest rates prevailing at the year end of 0.76%–2.11% (2008: 0.75%–2.79%).

(b) Prepaid flight training expenses represent the training expenses prepaid for pilot undergraduates and pilots in service of the Group and are amortized over the relevant training periods for which the prepayments cover on a straight-line basis.

25. 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:

| | 2009 | 2008 |
|---|-----------|-----------|
| | RMB'000 | RMB'000 |
| Within 90 days | 1,299,761 | 1,107,765 |
| 91 to 180 days | 37,427 | 24,283 |
| 181 to 365 days | 9,297 | 30,460 |
| Over 365 days | 154,306 | 128,095 |
| | 1,500,791 | 1,290,603 |
| Less: provision for impairment of receivables | (129,920) | (125,295) |
| Trade receivables | 1,370,871 | 1,165,308 |

Balances with related companies included in trade receivables are summarized in Note 44(b)(i).

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. TRADE RECEIVABLES (CONTINUED)

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

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

As at December 31, 2009, trade receivables of RMB104 million (2008: RMB153 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 RMB287 million (2008: RMB320 million) from these agents. The ageing analysis of these trade receivables is as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|----------------|-----------------|-----------------|
| Up to 6 months | 94,840 | 122,407 |
| 6 to 12 months | 9,260 | 30,451 |
| | 104,100 | 152,858 |

As at 31 December 2009, trade receivables of RMB87 million (2008: RMB84 million) were impaired and fully provided for. The remaining impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The factors considered by management in determining the impairment are described in Note 2(r).

The ageing of impaired receivables is as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|-------------------------|-----------------|-----------------|
| 12 to 24 months overdue | 32,700 | 15,665 |
| Over 24 months overdue | 121,606 | 112,430 |
| | 154,306 | 128,095 |

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

| | 2009 RMB'000 | 2008 RMB'000 |
|--|-----------------|-----------------|
| At January 1 | 125,295 | 86,984 |
| Receivables written off during the year as uncollectible | - | (1,027) |
| Provision for impairment of receivables | 4,625 | 39,338 |
| At December 31 | 129,920 | 125,295 |

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 provision account are generally written off, when there is no expectation of recovering additional cash.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. TRADE RECEIVABLES (CONTINUED)

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

| | 2009 | 2008 |
|------------------|-----------|-----------|
| | RMB'000 | RMB'000 |
| Currency | | |
| Renminbi | 1,019,919 | 918,691 |
| US Dollars | 79,732 | 51,075 |
| HK Dollars | 44,332 | 48,901 |
| Euro | 56,663 | 42,706 |
| Korea Won | 26,174 | 9,021 |
| Japanese Yen | 93,778 | 56,003 |
| Other currencies | 50,273 | 38,911 |
| | 1,370,871 | 1,165,308 |

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2009 | 2008 |
|--|-----------|-----------|
| | RMB'000 | RMB'000 |
| Restricted bank deposits (Note (a)) | 427,996 | 2,159,848 |
| Rebates receivable on aircraft acquisitions | 783,864 | 930,665 |
| Ground service fees | 332,446 | 321,727 |
| Prepaid aircraft operating lease rentals | 234,385 | 249,308 |
| Rental deposits | 117,472 | 99,843 |
| Custom duties and value added tax recoverable | 55,893 | 64,501 |
| Short term deposits with original maturity over three months but less than a year (Note (b)) | 28,454 | 33,116 |
| Amounts due from related companies (Note 44(b)(i)) | 61,397 | 189,378 |
| Others | 493,927 | 428,493 |
| Subtotal | 2,535,834 | 4,476,879 |
| Less: Bad debt provision | (165,339) | (161,157) |
| | 2,370,495 | 4,315,722 |

Notes:

(a) The restricted bank deposits represent: i) a security deposit of US dollar 62 million (RMB421 million equivalent) for crude oil option contracts (2008: US dollar 117 million or RMB796 million equivalent); ii) a deposit of RMB7 million for notes payable (2008: RMB17 million).

(b) As at December 31, 2009, the deposits were RMB and the effective interest rate on deposits with banks with original maturity over three months but less than a year was 0.36% (2008: 0.36%).

27. CASH AND CASH EQUIVALENTS

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

| | 2009 | 2008 |
|--------------------|-----------|-----------|
| | RMB'000 | RMB'000 |
| Renminbi | 816,538 | 2,623,585 |
| HK Dollars | 470,234 | 9,433 |
| US Dollars | 253,776 | 494,249 |
| Euro | 43,519 | 126,695 |
| Japanese Yen | 30,889 | 37,657 |
| Singapore Dollars | 11,126 | 42,617 |
| Australian Dollars | 9,666 | 18,922 |
| Pounds Sterling | 7,860 | 11,016 |
| Canadian Dollars | 3,834 | 12,394 |
| Others | 87,806 | 74,442 |
| | 1,735,248 | 3,451,010 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Trade payables and notes payable

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

| | 2009 RMB'000 | 2008 RMB'000 |
|-----------------|-----------------|-----------------|
| Within 90 days | 5,161,027 | 3,518,572 |
| 91 to 180 days | 772,255 | 1,271,555 |
| 181 to 365 days | 157,856 | 317,695 |
| Over 365 days | 389,321 | 351,272 |
| | 6,480,459 | 5,459,094 |

As at December 31, 2009, the trade payables and notes payable balances of the Group included amounts due to related companies of RMB1,013 million (2008: RMB1,692 million) (Note 44(b)(ii)).

As at December 31, 2009, notes payable totaling RMB4,936 million (2008: RMB3,840 million) were unsecured. Part of notes payable's effective interests rates ranged from 1.6% to 5.9% (2008: 2.9% to 5.9%) and all notes are repayable within six months.

29. OTHER PAYABLES AND ACCRUED EXPENSES

| | December 31, | |
|---|-----------------|-----------------|
| | 2009 RMB'000 | 2008 RMB'000 |
| Accrued fuel cost | 2,196,652 | 3,841,660 |
| Accrued take-off and landing charges | 2,331,711 | 1,879,751 |
| Accrued expenses related to aircraft overhaul conducted | 1,389,906 | 1,256,115 |
| Other accrued operating expenses | 1,181,390 | 1,417,988 |
| Accrued salaries, wages and benefits | 1,481,264 | 1,058,895 |
| Duties and levies payable | 759,446 | 545,482 |
| Staff housing allowance (Note 36(b)) | 401,322 | 386,065 |
| Deposits received from ticket sales agents | 286,780 | 320,624 |
| Payable to the Bureau of 2010 Expo Shanghai (Note 18(b)) | 116,158 | - |
| Current portion of other long-term liabilities (Note 33) | 76,577 | 130,460 |
| Current portion of post-retirement benefit obligations (Note 35(b)) | 51,226 | 46,461 |
| Amounts due to related companies (Note 44(b)(ii)) | 136,259 | 106,890 |
| Others | 1,108,513 | 1,255,674 |
| | 11,517,204 | 12,246,065 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. OBLIGATIONS UNDER FINANCE LEASES

As at December 31, 2009, the Group had 65 aircraft (2008: 68 aircraft) 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 fair market value and others at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

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

| | December 31, 2009 | | | December 31, 2008 | | |
|--|-----------------------------------|---------------------|--|-----------------------------------|---------------------|--|
| | Minimum lease payments RMB'000 | Interest RMB'000 | Present value of minimum lease payments RMB'000 | Minimum lease payments RMB'000 | Interest RMB'000 | Present value of minimum lease payments RMB'000 |
| Within one year | 2,466,415 | 340,985 | 2,125,430 | 2,765,969 | 848,980 | 1,916,989 |
| In the second year | 2,388,362 | 294,733 | 2,093,629 | 2,704,499 | 688,327 | 2,016,172 |
| In the third to fifth year inclusive | 7,405,048 | 620,147 | 6,784,901 | 7,805,669 | 1,602,339 | 6,203,330 |
| After the fifth year | 8,752,687 | 386,412 | 8,366,275 | 11,868,053 | 1,195,645 | 10,672,408 |
| Total | 21,012,512 | 1,642,277 | 19,370,235 | 25,144,190 | 4,335,291 | 20,808,899 |
| Less: - amount repayable within one year | (2,466,415) | (340,985) | (2,125,430) | (2,765,969) | (848,980) | (1,916,989) |
| Long-term portion | 18,546,097 | 1,301,292 | 17,244,805 | 22,378,221 | 3,486,311 | 18,891,910 |

The fair value of obligations under finance leases of the Group is RMB19,681 million (2008: RMB21,037 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

31. BORROWINGS

| | December 31, | |
|---|-------------------|-------------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Non-current | | |
| Long-term bank borrowings | | |
| – secured | 7,566,853 | 3,350,114 |
| – unsecured | 5,438,021 | 5,237,938 |
| | 13,004,874 | 8,588,052 |
| Current | | |
| Long-term bank borrowings | | |
| – secured | 1,221,829 | 1,133,836 |
| – unsecured | 2,701,640 | 5,905,655 |
| Short-term bank borrowings | | |
| – secured | - | 1,284,236 |
| – unsecured | 8,406,606 | 18,189,593 |
| | 12,330,075 | 26,513,320 |
| Total borrowings | 25,334,949 | 35,101,372 |
| The borrowings are repayable as follows: | | |
| Within one year | 12,330,075 | 26,513,320 |
| In the second year | 2,714,006 | 4,147,845 |
| In the third to fifth year inclusive | 6,165,512 | 3,665,352 |
| After the fifth year | 4,125,356 | 774,855 |
| Total borrowings | 25,334,949 | 35,101,372 |

Note:

As at December 31, 2009, the secured bank borrowings of the Group for the purchases of aircraft was secured by the related aircrafts and buildings with an aggregate net book amount of RMB13,678 million (2008: RMB8,723 million) (Note 19).

Certain unsecured bank borrowings of the Group totaling of RMB447 million (2008: RMB957 million) were guaranteed by CEA Holding (Note 44c).

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. BORROWINGS (CONTINUED)

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

| Currency | Interest rate and final maturities | 2009 RMB'000 | 2008 RMB'000 |
|---------------------------------|---|-----------------|-----------------|
| RMB denominated | Interest rates ranging from 4.37% to 6.97% per annum with final maturities through to 2017. | 6,535,520 | 6,898,178 |
| U.S. dollar denominated | Interest rates ranging from 3 month LIBOR+0.25% to 6 month LIBOR+4% per annum with final maturities through to 2021 | 10,279,569 | 8,617,707 |
| EURO denominated | Interest rate is 6 months LIBOR+0.6% with final maturity through 2010. | 113,254 | 111,658 |
| Total long-term bank borrowings | | 16,928,343 | 15,627,543 |

Note:

- (a) The fair value of long-term borrowing of the Group is RMB17,051 million (2008: RMB15,826 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.
- (b) Short-term borrowings of the Group are repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. As at December 31, 2009, the interest rates relating to such borrowings ranged from 0.33% to 7.47% per annum (2008: 2.7% to 7.47% per annum). During the year ended December 31, 2009, the weighted average interest rate on short-term bank loans was 5.14% per annum (2008: 6.36% per annum).
- (c) The carrying amounts of the borrowings are denominated in the following currencies:

| | 2009 RMB'000 | 2008 RMB'000 |
|------------|-----------------|-----------------|
| Renminbi | 12,064,354 | 21,955,769 |
| US Dollars | 13,157,341 | 13,007,688 |
| Euro | 113,254 | 111,658 |
| HK Dollar | - | 26,257 |
| | 25,334,949 | 35,101,372 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. PROVISION FOR RETURN CONDITION CHECKS FOR AIRCRAFT AND ENGINES UNDER OPERATING LEASES

| | 2009 RMB'000 | 2008 RMB'000 |
|-----------------------|-----------------|-----------------|
| At January 1 | 1,534,018 | 956,910 |
| Additional provisions | 588,745 | 618,555 |
| Utilization | (275,008) | (41,447) |
| At December 31 | 1,847,755 | 1,534,018 |
| Less: current portion | (609,884) | (213,830) |
| Long-term portion | 1,237,871 | 1,320,188 |

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

33. OTHER LONG-TERM LIABILITIES

| | December 31, | |
|--|-----------------|-----------------|
| | 2009 RMB'000 | 2008 RMB'000 |
| Long-term duties and levies payable | 737,369 | 805,794 |
| Fair value of unredeemed points awarded under the Group's frequent flyer programme | 442,623 | 364,858 |
| Payable to the Bureau of 2010 Expo Shanghai (Note 18(b)) | - | 177,883 |
| Long-term payable to Aviation China Civil Flight Institute | - | 30,000 |
| Deferred gains on sale and leaseback of aircraft | 8,138 | 14,549 |
| Other long-term payable | 91,870 | 58,135 |
| | 1,280,000 | 1,451,219 |
| Less: Current portion (Note 29) | (76,577) | (130,460) |
| Long-term portion | 1,203,423 | 1,320,759 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. DEFERRED TAXATION

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

| | December 31 | |
|--|-------------|----------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Deferred tax assets | | |
| – Deferred tax asset to be utilized after 12 months | 82,272 | 79,802 |
| – Deferred tax asset to be utilized within 12 months | 1,476 | 2,145 |
| | 83,748 | 81,947 |
| Deferred tax liabilities | | |
| – Deferred tax liability to be realized after 12 months | (51,539) | (55,444) |
| – Deferred tax liability to be realized within 12 months | - | (2,145) |
| | (51,539) | (57,589) |

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

| | December 31 | |
|--|-------------|----------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| At January 1 | 24,358 | 62,842 |
| Credited/(charged) to income statement (Note 14) | 7,851 | (38,484) |
| At December 31 | 32,209 | 24,358 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. 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 | |
|---|-------------|-------------|
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Deferred tax assets: | | |
| Tax losses carried forward | - | 1,846 |
| Impairment provision for obsolete flight equipment spare parts | 78,634 | 78,634 |
| Impairment provision for receivables | 68,553 | 68,553 |
| Impairment provision for property, plant and equipment | 170,808 | 170,808 |
| Provision for return condition checks for aircraft and engines under operating leases | 152,231 | 152,231 |
| Provision for frequent flyer programme | 13,619 | 13,619 |
| Financial derivative liabilities | 132,732 | 313,488 |
| Provision for post-retirement benefits | 271,672 | 271,672 |
| | 888,249 | 1,070,851 |
| Deferred tax liabilities: | | |
| Depreciation and amortization | (855,272) | (1,024,173) |
| Financial derivative assets | (768) | (22,320) |
| | (856,040) | (1,046,493) |

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

| | At the beginning of the year RMB'000 | (Charged)/ credited to income statement RMB'000 | (Charged)/ credited to equity RMB'000 | At the end of the year RMB'000 |
|---|--|---|---|--------------------------------------|
| For the year ended December 31, 2009 | | | | |
| Tax losses carried forward | 1,846 | (1,846) | - | - |
| Impairment provision for obsolete flight equipment spare parts | 78,634 | - | - | 78,634 |
| Impairment provision for receivables | 68,553 | - | - | 68,553 |
| Impairment provision for property, plant and equipment | 170,808 | - | - | 170,808 |
| Provision for return condition checks for aircraft and engines under operating leases | 152,231 | - | - | 152,231 |
| Provision for frequent flyer programme | 13,619 | - | - | 13,619 |
| Financial derivative liabilities | 313,488 | (180,756) | - | 132,732 |
| Provision for post-retirement benefits | 271,672 | - | - | 271,672 |
| | 1,070,851 | (182,602) | - | 888,249 |
| Depreciation and amortization | (1,024,173) | 168,901 | - | (855,272) |
| Financial derivative assets | (22,320) | 21,552 | - | (768) |
| Net deferred tax assets | 24,358 | 7,851 | - | 32,209 |

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. DEFERRED TAXATION (CONTINUED)

| | At the beginning of the year RMB'000 | (Charged)/ credited to income statement RMB'000 | (Charged)/ credited to equity RMB'000 | At the end of the year RMB'000 |
|--|---|---|---|---|
| For the year ended December 31, 2008 | | | | |
| Tax losses carried forward | 317,392 | (315,546) | - | 1,846 |
| Impairment provision for obsolete flight equipment spare parts | 138,783 | (60,149) | - | 78,634 |
| Impairment provision for receivables | 79,195 | (10,642) | - | 68,553 |
| Impairment provision for property, plant and equipment | - | 170,808 | - | 170,808 |
| Provision for return condition checks for aircraft and engines under operating leases | 96,834 | 55,397 | - | 152,231 |
| Provision for frequent flyer programme | - | 13,619 | - | 13,619 |
| Financial derivative liabilities | 10,449 | 303,039 | - | 313,488 |
| Provision for post-retirement benefits | 351,283 | (79,611) | - | 271,672 |
| | 993,936 | 76,915 | - | 1,070,851 |
| Depreciation and amortization | (931,094) | (93,079) | - | (1,024,173) |
| Financial derivative assets | - | (22,320) | - | (22,320) |
| Net deferred tax assets/(liabilities) | 62,842 | (38,484) | - | 24,358 |

In accordance with the PRC tax law, tax losses can be carried forward to offset against future taxable income for a period of five years. As at December 31, 2009, the Group had tax losses carried forward of approximately RMB12,586 million (2008: RMB11,465 million) which will expire between 2010 and 2014, and which are available to set off against the Group companies' future taxable income. As at December 31, 2009, the Group did not recognize RMB3,147 million (2008: RMB2,864 million) of deferred tax assets arising from tax losses available as management did not consider it probable that such tax losses would be realized before they expire.

35. 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 the various provinces in which the Group companies operate, and substantially all of the Group's PRC employees are eligible to participate in the Group companies' retirement schemes. The Group companies are required to make annual contributions to the schemes at rates ranging from 20% to 22% on the employees' prior year salary and allowances. Employees are required to contribute to the schemes at rates ranging from 7% to 8% of their basic salaries. For the year ended December 31, 2009, the Group's pension cost charged to the consolidated income statement amounted to RMB390 million (2008: RMB360 million).

(ii) Medical insurance

The Majority of the Group's PRC employees participate in the medical insurance schemes organized by the 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. 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, 2009, the Group's medical insurance contributions charged to the income statement amounted to RMB132 million (2008: RMB93 million).

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS (CONTINUED)

(b) Post-retirement benefits

In addition to the above defined contribution retirement a scheme, 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:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|-----------------|-----------------|
| Present value of unfunded post-retirement benefit obligations | 4,490,477 | 4,481,420 |
| Unrecognized actuarial losses | (2,640,544) | (2,965,835) |
| Post-retirement benefit obligations | 1,849,933 | 1,515,585 |
| Less: current portion (Note 29) | (51,226) | (46,461) |
| Long-term portion | 1,798,707 | 1,469,124 |

Changes in post-retirement benefit obligations are as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|---------------------------------------|-----------------|-----------------|
| At January 1 | 1,515,585 | 1,405,127 |
| Costs charged in the income statement | 440,878 | 200,603 |
| Payments | (106,530) | (90,145) |
| At December 31 | 1,849,933 | 1,515,585 |

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

| | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|-----------------------------|-----------------|-----------------|-----------------|
| Current service cost | 156,000 | 74,478 | 73,416 |
| Interest cost | 169,318 | 102,009 | 83,858 |
| Actuarial losses recognized | 115,560 | 24,116 | 13,396 |
| Total (Note 9) | 440,878 | 200,603 | 170,670 |

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

| | 2009 | 2008 |
|---|-------|-------|
| Discount rate | 4.25% | 3.75% |
| Annual rate of increase of per capita benefit payment | 3.00% | 3.00% |
| Employee turnover rate | 3.00% | 3.00% |

| | | |
|------------------------|-------|-------|
| Mortality rate | 9.07% | 8.80% |
| Medical inflation rate | 5.00% | 5.00% |

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. 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% (2008: 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, 2009, the Group's contributions to the housing funds amounted to RMB323 million (2008: RMB282 million) which has been charged to the consolidated income statement. The staff housing fund payable as at December 31, 2009 is RMB20 million (2008: RMB25 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 who have not been allocated with any housing quarters, or who have not been allocated with a quarter above the minimum standard as set out in the Group's staff housing allowance policy introduced in October 2003 (the "Housing Policy") based on the area of quarter to which they are entitled and the unit price as set out in the Housing Policy.

The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation, his or her entitlement would cease and any unpaid entitlement related to past service up to the date of resignation would be paid. As at December 31, 2009, the present obligation of the provision for employee's staff housing entitlement is RMB401 million (2008: RMB386 million).

For the year ended December 31, 2009, the staff housing benefit provided under the Housing Policy amounted to RMB106 million (2008: RMB123 million) which has been charged to the consolidated income statement.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. DERIVATIVE FINANCIAL INSTRUMENTS

| | Assets | | Liabilities | |
|---|--------------|----------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At December 31 | | | | |
| Interest rate swaps (Note (a)) | - | 988 | 154,871 | 182,971 |
| Forward foreign exchange contracts (Note (b)) | - | - | 77,016 | 138,760 |
| Crude oil option contracts (Note (c)) | 3,490 | 123,010 | 897,744 | 6,319,868 |
| Total | 3,490 | 123,998 | 1,129,631 | 6,641,599 |
| Less: current portion | | | | |
| - Interest rate swaps | - | - | (67,728) | (41,668) |
| - Forward foreign exchange contracts | - | - | (40,814) | (94,539) |
| - Crude oil option contracts | (3,490) | (123,010) | (897,744) | (6,319,868) |
| | (3,490) | (123,010) | (1,006,286) | (6,456,075) |
| Non-current portion | - | 988 | 123,345 | 185,524 |

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

Notes:

(a) Interest rate swaps

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3(a)(ii)). The Group's interest rate swaps qualify for hedge accounting. The interest rate swaps entered into by the Group are generally for swapping variable rates, usually referenced to LIBOR, into fixed rates and are accounted for as cash flow hedges. Other interest rate swaps are for swapping fixed rates into variable rates and are accounted for as fair value hedges. As at December 31, 2009, the notional amount of the outstanding interest rate swap agreements was approximately US\$388 million (2008: US\$471 million). These agreements will expire between 2010 and 2018.

Realized and unrealized gains and losses arising from the valuation of these interest rate swaps have been dealt with in the consolidated statements of comprehensive income as follows:

| | 2009 | 2008 | 2007 |
|--|----------|-----------|----------|
| | RMB'000 | RMB'000 | RMB'000 |
| Realized (losses)/gains (recognized in the income statement) | (77,047) | 10,083 | 59,862 |
| Unrealized mark to market gains/(losses) | | | |
| - cash flow hedges (recognized in the comprehensive income) | 56,112 | (126,138) | (79,783) |
| - fair value hedges (recognized in the income statement) | (27,530) | (49,535) | (8,824) |
| | (48,465) | (165,590) | (28,745) |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. 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 qualify for hedge accounting. These contracts are generally for selling Japanese Yen and purchasing U.S. dollars at fixed exchange rates and are accounted for as cash flow hedges. Other forward foreign exchange contracts are for purchasing Japanese Yen and selling U.S. dollars at fixed exchange rates and are accounted for as fair value hedges. As at December 31, 2009, the notional amount of the outstanding currency forward contracts was approximately US\$82 million (2008: US\$121 million), which will expire between 2010 and 2017.

Realized and unrealized gains and losses arising from the valuation of these contracts have been dealt with in the consolidated statements of comprehensive income as follows:

| | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|-----------------|
| Realized (losses)/gains (recognized in the income statement) | 45,983 | 14,759 | 17,932 |
| Unrealized mark to market gains/(losses) | | | |
| - cash flow hedges (recognized in the comprehensive income) | 3,272 | (44,222) | 1,586 |
| - fair value hedges (recognized in the income statement)) | 58,472 | (95,666) | (3,787) |
| | 107,727 | (125,129) | 15,731 |

(c) Crude oil option contracts

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

The Group did not enter into crude oil option contracts in 2009. All existing crude oil option contracts as at December 31, 2009 were entered into by the Group prior to 2009. None of the crude oil option contracts entered into by the Group qualified for hedge accounting, the realized and unrealized mark to market gains/(losses) of the crude oil option contracts during the year were recognized in the consolidated income statement.

Realized and unrealized gains and losses arising from the valuation of these contracts have been dealt with in the consolidated statements of comprehensive income.

| | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
|-------------------------|-----------------|-----------------|-----------------|
| Realized (losses)/gains | (1,558,858) | (8,577) | 120,171 |

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| | | | |
|--|-----------|-------------|---------|
| Unrealized mark to market gains/(losses) | 5,302,604 | (6,255,791) | 96,576 |
| | 3,743,746 | (6,264,368) | 216,747 |

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

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. FINANCIAL INSTRUMENTS BY CATEGORY

| | Assets at fair value | | Derivatives | Other trading | | Total |
|---|----------------------|----------------------------------|------------------|---------------|--------------------|------------------|
| | Loans receivable | held through the profit and loss | used for hedging | derivatives | Available-for-sale | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance December 31, 2009 Assets as per balance sheet | | | | | | |
| Available-for-sale financial assets | - | - | - | - | 57,269 | 57,269 |
| Derivative financial instruments | - | - | - | 3,490 | - | 3,490 |
| Trade receivables | 1,370,871 | - | - | - | - | 1,370,871 |
| Prepayments, deposits and other receivables excluding prepayments | 1,993,096 | - | - | - | - | 1,993,096 |
| Cash and cash equivalents | 1,735,248 | - | - | - | - | 1,735,248 |
| Total | 5,099,215 | - | - | 3,490 | 57,269 | 5,159,974 |

| | Liabilities at fair value | | Derivatives | Other financial | | Total |
|--|---------------------------|----------------------------------|------------------|---------------------------|-------------------------------|-------------------|
| | Loans receivable | held through the profit and loss | used for hedging | Other trading derivatives | liabilities at amortized cost | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance December 31, 2009 Liabilities as per balance sheet | | | | | | |
| Borrowings | 25,334,949 | - | - | - | - | 25,334,949 |
| Obligations under finance leases | 19,370,235 | - | - | - | - | 19,370,235 |
| Derivative financial instruments | - | - | 128,094 | 1,001,537 | - | 1,129,631 |
| Trade payables and notes payable | 6,480,459 | - | - | - | - | 6,480,459 |
| Other payables and accrued expenses | 11,517,204 | - | - | - | - | 11,517,204 |
| Total | 62,702,847 | - | 128,094 | 1,001,537 | - | 63,832,478 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

| | Assets at fair value | | Derivatives | | Available-for-sale | Total |
|---|----------------------|----------------------------------|------------------|---------------------------|--------------------|-----------|
| | Loans receivable | held through the profit and loss | used for hedging | Other trading derivatives | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance December 31, 2008 Assets as per balance sheet | | | | | | |
| Available-for-sale financial assets | - | - | - | - | 31,268 | 31,268 |
| Derivative financial instruments | - | - | - | 988 | - | 988 |
| Trade receivables | 1,165,308 | - | - | - | - | 1,165,308 |
| Prepayments, deposits and other receivables excluding prepayments | 3,854,108 | - | - | - | - | 3,854,108 |
| Cash and cash equivalents | 3,451,010 | - | - | - | - | 3,451,010 |
| Total | 8,470,426 | - | - | 988 | 31,268 | 8,502,682 |

| | Liabilities at fair value | | Derivatives | | Other financial | | Total |
|--|---------------------------|----------------------------------|------------------|---------------------------|-------------------------------|---------|------------|
| | Loans payable | held through the profit and loss | used for hedging | Other trading derivatives | liabilities at amortized cost | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance December 31, 2008 Liabilities as per balance sheet | | | | | | | |
| Borrowings | 35,101,372 | - | - | - | - | - | 35,101,372 |
| Obligations under finance leases | 20,808,899 | - | - | - | - | - | 20,808,899 |
| Derivative financial instruments | - | - | 186,007 | 6,455,592 | - | - | 6,641,599 |
| Trade payables and notes payable | 5,459,094 | - | - | - | - | - | 5,459,094 |
| Other payables and accrued expenses | 12,246,065 | - | - | - | - | - | 12,246,065 |
| Total | 73,615,430 | - | 186,007 | 6,455,592 | - | - | 80,257,029 |

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39. SHARE CAPITAL

| | | December 31, 2009 | 2008 |
|---|----------------|----------------------|-----------|
| | | RMB'000 | RMB'000 |
| Registered, issued and fully paid of RMB1.00 each | | | |
| A shares listed on The Shanghai Stock Exchange (“A Shares”) | | 6,087,375 | 3,300,000 |
| — Tradable shares held by CEA Holding with trading moratorium | (a), (b) & (c) | 4,831,375 | 2,904,000 |
| — Tradable Shares held by other investors with trading moratorium | (c) | 860,000 | - |
| — Tradable Shares without trading moratorium | | 396,000 | 396,000 |
| H shares listed on The Stock Exchange of Hong Kong Limited (“H Shares”) | | | |
| — Tradable Shares held by CES Global with trading moratorium | (b) | 1,437,375 | - |
| — Tradable shares without trading moratorium | (c) | 2,056,950 | 1,566,950 |
| | | 9,581,700 | 4,866,950 |

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

a) On January 4, 2007, the Company’s share reform plan was approved by the Ministry of Commerce and implemented on January 9, 2007. In this connection, CEA Holding granted 96 million shares in total to the holders of the circulating shares and the original 2,904,000,000 non-circulating shares held by CEA Holding were granted the status of listing with a lock up period of 36 months from the effective date of the share reform.

b) On May 19, 2009, China Securities Regulatory Commission (the “CSRC”) approved the Company’s application for additional issuance of 1,437,375,000 H Shares of par value of RMB1.00 each. CES Global subscribed for all the shares under this issue and undertook that it would not transfer the subscribed H Shares within 36 months from the completion date of the issuance. The issue price was HKD1.13 per share and the total proceed of HKD1,630,342,000, equivalent to RMB1,437,375,000 (the “Proceeds of 1st H Shares issuance”) from the issuance was received by the Company on June 26, 2009 and verified by a PRC Certified Public Accountants firm.

On June 5, 2009, CSRC approved the Company’s application for non-public issuance of 1,437,375,000 A Shares of par value of RMB1.00 each to CEA Holding. The issue price was RMB3.87 per share and the total proceed of RMB5,562,641,000 (the “Proceeds of 1st A Shares issuance”) from the issue was received by the Company on June 25, 2009 and verified by a PRC Certified Public Accountants firm. According to the commitment of CEA Holding, it would not transfer the shares of the Company in which it owns interests (including the original 2,904,000,000 non-circulating shares as mentioned in Note (a) above) within 3 years after the completion of this non-public issue.

The total amount of the aforementioned Proceeds of 1st A Shares issuance and Proceeds of 1st H Shares issuance were RMB7,000,016,000, after deducting the share issue expenses of RMB14,878,000, the net proceeds raised from the above share issues amounted to RMB6,985,138,000, of which RMB2,874,750,000 is recorded as share capital and the remaining RMB4,110,388,000 is recorded as share premium.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. SHARE CAPITAL (CONTINUED)

c) On November 27, 2009, CSRC approved the Company's application for additional issuance of 490,000,000 new H Shares of par value of RMB 1.00 each to CES Holding. The issue price was HKD1.56 per share and the total proceed of HKD764,400,000, equivalent to RMB673,383,000 (the "Proceeds of 2nd H Shares issuance"), was received by the Company on December 10, 2009 and has been verified by a PRC Certified Public Accountants firm.

On December 2, 2009, CSRC approved the Company's application for non- public issuance of 1,350,000,000 A Shares of par value of RMB1.00 each. 490,000,000 shares of which were subscribed by CEA Holding which undertook that it would not transfer the subscribed A Shares within 36 months from the completion date of the issuance. The remaining 860,000,000 shares under this issue were subscribed by other investors which undertook that it would not transfer the subscribed A Shares within 12 months from the completion date of the issuance. The issue price was RMB4.75 per share and the total proceed of RMB6,412,500,000 from this issue (the "Proceeds of 2nd A Shares issuance"), was received by the Company on December 15, 2009 and has been verified by a PRC Certified Public Accountants firm.

The total amount of the aforementioned Proceeds of 2nd A Shares issuance and Proceeds of the second H Shares issuance were RMB7,085,883,000, after deducting the share issue expenses of RMB14,854,000, the net proceeds raised from the above share issues amounted to RMB7,071,029,000, of which RMB1,840,000,000 is recorded as share capital and the remaining RMB5,231,029,000 is recorded as share premium.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. RESERVES

| | Share premium (Note 39) RMB'000 | Revaluation reserve (Note (b)) RMB'000 | Capital reserve (Note (b)) RMB'000 | Hedging reserve (Note 37) RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|--|---------------------------------------|---|--|---|---------------------------|-------------------------------|------------------|
| At January 1, 2008 | 1,006,455 | 23,816 | (720,057) | (25,030) | 22,167 | (2,813,730) | (2,506,379) |
| Unrealized loss on cash flow hedges (Note 37) | - | - | - | (170,525) | - | - | (170,525) |
| Realized gains on cash flow hedges (Note 37) | - | - | - | 165 | - | - | 165 |
| Fair value movements of available for sale investments held by associates | - | - | - | - | (19,080) | - | (19,080) |
| Loss attributable to equity holders of the Company | - | - | - | - | - | (15,268,532) | (15,268,532) |
| At December 31, 2008 | 1,006,455 | 23,816 | (720,057) | (195,390) | 3,087 | (18,082,262) | (17,964,351) |
| At January 1, 2009 | 1,006,455 | 23,816 | (720,057) | (195,390) | 3,087 | (18,082,262) | (17,964,351) |
| Unrealized gain on cash flow hedges (Note 37) | - | - | - | 59,384 | - | - | 59,384 |
| Realized loss on cash flow hedges (Note 37) | - | - | - | (1,470) | - | - | (1,470) |
| Capital reserve attributed by shareholders of an associate | - | - | - | - | 49,692 | - | 49,692 |
| Fair value movements of available for sale investments held by associates | - | - | - | - | (585) | - | (585) |
| Issuance of new shares (Note 39) | 9,341,417 | - | - | - | - | - | 9,341,417 |
| Profit attributable to equity holders of the Company | - | - | - | - | - | 168,766 | 168,766 |
| At December 31, 2009 | 10,347,872 | 23,816 | (720,057) | (137,476) | 52,194 | (17,913,496) | (8,347,147) |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. RESERVES (CONTINUED)

Notes:

(a) Statutory and Discretionary Reserves

Pursuant to the PRC regulations and the Companies' Articles of Association, each of the Group companies is required to transfer 10% of its profit for the year, as determined under the PRC Accounting Standards, 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 Standards, to a discretionary common reserve fund. The transfer to this reserve is subject to approval at shareholders' meetings.

(b) Capital reserve

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

41. NON-CURRENT ASSETS HELD FOR SALE

In December 2006, the Board passed a resolution to dispose of certain older aircrafts and related flight equipments in the forthcoming 12-months. Accordingly, these aircrafts together with related flight equipments and spare parts were classified as non-current assets held for sale as at December 31, 2006. Since then the Company has been actively seeking buyers for these assets. In December 2009, the Company signed a sales and purchase agreement with a third-party to dispose these aircraft in 2010. An impairment loss of RMB35 million has been recognized in the income statement in relation to these assets with reference to the contract price (Note 10).

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CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

| | Year ended December 31, | | |
|---|-------------------------|--------------|-------------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit/(loss) before income tax | 249,205 | (15,256,009) | 377,938 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment and intangible assets | 5,177,149 | 4,755,622 | 4,694,888 |
| Gains on disposals of property, plant and equipment | - | (267,084) | (674) |
| Share of results of associates | 46,602 | (69,668) | (58,312) |
| Share of results of jointly controlled entities | (23,803) | (24,050) | (30,086) |
| Amortization of lease prepayments | 25,686 | 25,940 | 24,847 |
| Net foreign exchange gains | (95,379) | (1,970,990) | (2,023,032) |
| Amortization of deferred revenue | 71,354 | (19,965) | (12,594) |
| Unrealized (gain)/loss arising from fair value movements of financial derivatives | (5,333,546) | 6,400,992 | (96,575) |
| Consumption of flight equipment spare parts | 351,151 | 476,282 | 468,888 |
| Impairment provision of trade and other receivables | 8,807 | 39,338 | 10,481 |
| Provision for post-retirement benefits | 440,878 | 200,603 | 170,670 |
| Provision for return condition checks for aircraft and engines under operating leases | 588,745 | 618,556 | 446,289 |
| Impairment loss | 109,417 | 2,976,678 | 227,456 |
| Interest income | (109,925) | (89,275) | (96,849) |
| Interest expenses | 1,754,640 | 2,328,147 | 1,978,550 |
| Gain on disposal of an associate and available-for-sale financial assets | - | (13,557) | - |
| Gain on contribution to a jointly controlled entity | - | - | (31,620) |
| Gain on disposal of a subsidiary | - | - | (54,441) |
| Operating profit before working capital changes | 3,260,981 | 111,560 | 5,995,824 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. NOTE TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(a) Cash generated from operations (continued)

| | Year ended December 31, | | |
|---|-------------------------|-----------|-------------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Changes in working capital | | | |
| Flight equipment spare parts | (465,626) | (529,068) | (409,392) |
| Trade receivables | (210,188) | 922,431 | (470,065) |
| Prepayments, deposits and other receivables | 540,134 | (452,548) | 4,522 |
| Sales in advance of carriage | 406,305 | (197,331) | 319,550 |
| Trade payables and notes payables | 1,021,365 | 1,792,556 | (1,625,313) |
| Other payables and accrued expenses | (481,798) | 1,928,495 | (428,694) |
| Other long-term liabilities | (224,075) | (431,956) | (74,081) |
| Provision for return condition checks for aircraft and engines under operating leases | (275,008) | (41,448) | - |
| Staff housing allowances | (90,514) | (100,428) | (76,381) |
| Post-retirement benefit obligations | (106,530) | (90,145) | (89,227) |
| Operating lease deposits | 132,644 | 30,348 | (3,909) |
| | 246,709 | 2,830,906 | (2,852,990) |
| Cash generated from operations | 3,507,690 | 2,942,466 | 3,142,834 |

(b) Non-cash transactions

| | Year ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2009 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 |
| Investing activities not affecting cash: | | | |
| Finance lease obligations incurred for acquisition of aircraft | - | 7,964,792 | 8,395,965 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments:

| | 2009 RMB'000 | 2008 RMB'000 |
|--|-----------------|-----------------|
| Authorized and contracted for: | | |
| - Aircraft, engines and flight equipment | 74,161,006 | 52,533,736 |
| - Other property, plant and equipment | 544,490 | 130,180 |
| | 74,705,496 | 52,663,916 |
| Authorized but not contracted for: | | |
| - Other property, plant and equipment | 3,856,033 | 5,235,712 |
| | 3,856,033 | 5,235,712 |
| | 78,561,529 | 57,899,628 |

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

| | 2009 RMB'000 | 2008 RMB'000 |
|--------------------|-----------------|-----------------|
| Within one year | 10,480,635 | 8,852,380 |
| In the second year | 11,082,051 | 13,174,190 |
| In the third year | 16,661,512 | 9,051,539 |
| In the fourth year | 18,802,713 | 9,224,482 |
| Over four years | 17,134,095 | 12,231,145 |
| | 74,161,006 | 52,533,736 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. COMMITMENTS (CONTINUED)

(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:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|-----------------|-----------------|
| Aircraft, engines and flight equipment | | |
| Within one year | 2,404,916 | 2,671,355 |
| In the second year | 1,901,941 | 2,330,080 |
| In the third to fifth year inclusive | 4,468,013 | 4,598,624 |
| After the fifth year | 3,398,064 | 4,100,560 |
| | 12,172,934 | 13,700,619 |
| Land and buildings | | |
| Within one year | 153,453 | 202,540 |
| In the second year | 124,160 | 124,643 |
| In the third to fifth year inclusive | 335,059 | 325,423 |
| After the fifth year | 2,404,003 | 2,398,361 |
| | 3,016,675 | 3,050,967 |
| | 15,189,609 | 16,751,586 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which owns approximately 50.42% of the Company's shares as at December 31, 2009 (2008: 59.67%).

| Nature of transaction | Related party | Income/ (expense or payments) | |
|--|---|----------------------------------|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 |
| (a) Related party transactions | | | |
| With CEA Holding or companies directly or indirectly held by CEA Holding: | | | |
| Interest income on deposits at an average rate of 0.36% per annum (2008: 0.36% per annum) | EAGF* | 17,536 | 30,766 |
| Interest expense on loans at rate of 4.67% per annum (2008: 4.87% per annum) | EAGF* | (148,648) | (22,267) |
| 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 Aviation Travel Co., Ltd. | (11,697) | (11,468) |
| | SDATC* | (3,996) | (610) |
| | Shanghai Tourism (HK) Co., Ltd | (52) | (1,696) |
| Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment | EAIEC* | (48,489) | (47,257) |
| Repairs and maintenance expense for aircraft and engines | Wheels & Brakes | (60,598) | (64,653) |
| | STA | (137,273) | (131,081) |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. RELATED PARTY TRANSACTIONS (CONTINUED)

| Nature of transaction | Related party | Income/ (expense or payments) | |
|---|---|----------------------------------|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 |
| With CEA Holding or companies directly or indirectly held by CEA Holding: | | | |
| Supply of food and beverages | Shanghai Eastern Air Catering Co., Ltd. | (238,772) | (267,117) |
| | Xian Eastern Air Catering Investment Co., Ltd. | (37,834) | (36,526) |
| | Yunnan Eastern Air Catering Investment Co., Ltd. | (31,812) | (40,836) |
| | Qingdao Eastern Air Catering Investment Co., Ltd. | (24,583) | (27,480) |
| | Wuxi Eastern Air Catering and Beverage Investment Co., Ltd. | (15,249) | (15,183) |
| | Wuhan Eastern Air Catering Investment Co., Ltd. | (14,943) | (14,718) |
| | Ningbo Eastern Air Catering Investment Co., Ltd. | (14,666) | (14,071) |
| | Jiangxi Eastern Air Catering Investment Co., Ltd. | (13,468) | (12,105) |
| | Anhui Eastern Air Catering Investment Co., Ltd. | (11,624) | (10,838) |
| | Shanxi Eastern Air Catering Investment Co., Ltd. | (10,667) | (4,018) |
| | Gansu Eastern Air Catering Investment Co., Ltd. | (10,333) | (7,952) |
| | Qilu Eastern Air Catering Investment Co., Ltd. | (7,371) | (7,546) |
| | Hebei Eastern Air Catering Investment Co., Ltd. | (5,235) | (1,902) |
| | Shanghai Meixin Eastern Air Catering Investment Co., Ltd. | (4,010) | (3,233) |
| | Yantai Eastern Air Catering Investment Co., Ltd. | (229) | (144) |
| | Wuxi Eastern Air Catering Investment Co., Ltd. | (504) | (335) |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. RELATED PARTY TRANSACTIONS (CONTINUED)

| (a) | | Related party transactions (continued) | |
|--|---|--|-----------------|
| Nature of transaction | Related party | Income/ (expense or payments) | |
| | | 2009 RMB'000 | 2008 RMB'000 |
| Disposal of an associate | CEA Holding | - | 33,972 |
| Advertising expense | CAASC | (13,002) | (3,595) |
| Automobile maintenance fee | CEA Development Co. Ltd | (32,301) | (23,595) |
| Equipment maintenance fee | Shanghai Eastern Aviation Equipment Manufacturing Corporation | (5,258) | (8,958) |
| Land and building rental | CEA Holding | (55,140) | (55,399) |
| (b) | | Balances with related companies | |
| (i) | | Amounts due from related companies | |
| Nature | Company | 2009 RMB'000 | 2008 RMB'000 |
| Trade receivables (Note 25) | Kunming Dongmei Aviation Travel Co., Ltd. | 13,177 | 5,028 |
| | Shanghai Eastern Aviation International Travel and Transportation Co., Ltd | 11,012 | 11,012 |
| | SDATC | 3,164 | 9,714 |
| | Others | 13,234 | 17,246 |
| | | 40,587 | 43,000 |
| Prepayments, deposits and other receivables (Note 26) | EAIEC | 52,016 | 181,788 |
| | Eastern China Kaiya System Integration | 4,613 | 2,871 |
| | Others | 4,768 | 4,719 |
| | | 61,397 | 189,378 |

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

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. RELATED PARTY TRANSACTIONS (CONTINUED)

| Nature | Company | (ii) Amounts due to related companies | |
|---|--|---------------------------------------|-----------------|
| | | 2009 RMB'000 | 2008 RMB'000 |
| Trade payables and notes payable (Note 28) | EAIEC | 907,817 | 1,507,760 |
| | Shanghai Eastern Air Catering Co., Ltd. | 94,275 | 148,471 |
| | Yunnan Eastern Air Catering Investment Co., Ltd | 1,115 | 665 |
| | Yunnan Eastern China Kaiya System Integration Co., Ltd | 1,616 | 4,216 |
| | Wheels & Brakes | 140 | 16,353 |
| | Others | 8,180 | 14,968 |
| | | 1,013,143 | 1,692,433 |
| Other payables and accrued expenses (Note 29) | CEA Holding | 122,257 | 69,497 |
| | CEA Northwest Co., Ltd | 8,000 | 8,000 |
| | Eastern China Kaiya System Integration Co., Ltd. | 3,376 | 11,334 |
| | EAIEC | - | 10,106 |
| | Others | 2,626 | 7,953 |
| | | 136,259 | 106,890 |

Except for the amounts due to CEA Holding, which are reimbursement in nature, all other amounts due to related companies are trade in nature. Except for the notes payable to EAIEC which are with discount rates ranging from 1.74% to 2.70% (2008: 3.30% to 5.91%) and repayable within six months, all other amounts due to related companies are interest free and payable within normal credit terms given by trade creditors.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related companies (continued)

(iii) Short-term deposits and borrowings with an associate and CEA Holding

| | Average interest rate | | 2009 RMB'000 | 2008 RMB'000 |
|---|-----------------------|-------|-----------------|-----------------|
| | 2009 | 2008 | | |
| Short-term deposits (included in Prepayments, Deposits and Other Receivables) | | | | |
| “EAGF” | 0.40% | 0.40% | 465,238 | 1,202,892 |
| Short-term loans (included in Borrowings) | | | | |
| “EAGF” | 4.40% | 4.30% | 595,110 | 295,181 |
| Long-term loans (included in Borrowings) | | | | |
| “EAGF” | 4.67% | 4.87% | 230,000 | - |
| Long-term loans (included in Borrowings) | | | | |
| “CEA Holding” | 4.67% | 4.87% | 162,000 | 162,000 |

(c) Guarantees by holding company

As at December 31, 2009, bank loans of the Company's subsidiaries with an aggregate amount of RMB447 million (2008: RMB957 million) were guaranteed by CEA Holding (Note 31).

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. ULTIMATE HOLDING COMPANY

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

46. CONTINGENT LIABILITIES

The family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou on November 21, 2004, sued the Company in a U.S. court for compensation. After the case entered the procedures on appeal, the California Court of Appeal, dismissed the appeal of the plaintiff and affirmed the original order. Subsequent to that, on March 16, 2009, the plaintiff sued the Company in the Beijing No. 2 Intermediate People's Court. On August 18, 2009, Beijing No. 2 Intermediate People's Court accepted the case. Legal documents including summons, prosecution notifications and others have been served on the Company. Trial is yet to begin. The management of the Group believes that any outcome for this case will not have an adverse effect on the financial condition and results of operations of the Company.

As at December 31, 2009, except of the above, the Group was not involved in any other litigation, arbitration or claim of material importance.

47. POST BALANCE SHEET EVENT

On July 10, 2009, the Company entered into an absorption agreement (the "Absorption Agreement") with Shanghai Airlines Co., Ltd ("Shanghai Airlines") in relation to a proposed acquisition of Shanghai Airlines (the "Proposed Acquisition"). Pursuant to the Absorption Agreement, the Company will issue a maximum of 1,694,838,860 A Shares of the Company to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. On October 9, 2009, the Company convened the relevant shareholders' meeting in which the Proposed Acquisition was approved.

On December 30, 2009, the Proposed Acquisition was approved by CSRC. On January 28, 2010 (the "Acquisition Date"), the Company issued 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all issued shares of Shanghai Airlines resulting in Shanghai Airlines becoming a wholly owned subsidiary of the Company.

The fair value of identifiable assets and liabilities (the "Acquired Assets and Liabilities") of Shanghai Airlines as at the Acquisition Date were estimated by the Board through a valuation conducted by an independent valuer in respect of the Acquired Assets and Liabilities as at December 31, 2009.

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47. POST BALANCE SHEET EVENT (CONTINUED)

The carrying amount and fair value of the Acquired Assets and Liabilities, provisionally determined, are as follows:

| | Carrying Amount RMB'000 | Fair Value RMB'000 |
|--|----------------------------|-----------------------|
| Assets | | |
| Non-current assets | | |
| Intangible assets | 21,352 | 21,352 |
| Property, plant and equipment | 10,274,572 | 8,549,043 |
| Lease prepayments | 115,804 | 551,336 |
| Advanced payments on acquisition of aircraft | 1,072,367 | 1,072,367 |
| Investments in associates | 59,714 | 59,714 |
| Investments in jointly controlled entities | 19,184 | 19,184 |
| Available-for-sale financial assets | 181,780 | 181,780 |
| Other long-term assets | 526,659 | 526,659 |
| Deferred tax assets | 510 | 510 |
| | 12,271,942 | 10,981,945 |
| Current assets | | |
| Flight equipment spare parts | 333,043 | 333,043 |
| Trade receivables | 698,362 | 698,362 |
| Prepayments, deposits and other receivables | 1,398,095 | 1,398,095 |
| Cash and cash equivalents | 1,167,565 | 1,167,565 |
| | 3,597,065 | 3,597,065 |
| Total assets | 15,869,007 | 14,579,010 |
| Liabilities | | |
| Current liabilities | | |
| Sales in advance of carriage | 311,170 | 311,170 |
| Trade payables and notes payable | 1,383,575 | 1,383,575 |
| Other payables and accrued expenses | 2,492,280 | 2,492,280 |
| Current portion of obligations under finance leases | 73,691 | 73,691 |
| Current portion of borrowings | 5,711,604 | 5,711,604 |
| Income tax payable | 16,433 | 16,433 |
| Current portion of provision for return condition checks for aircraft under operating leases | 46,378 | 46,378 |
| Derivative liabilities | 18,004 | 18,004 |
| | 10,053,135 | 10,053,135 |

CHINA EASTERN AIRLINES CORPORATION LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47. POST BALANCE SHEET EVENT (CONTINUED)

The carrying amount and fair value of the Acquired Assets and Liabilities, provisionally determined, are as follows:

| | Carrying Amount RMB'000 | Fair Value RMB'000 |
|---|----------------------------|-----------------------|
| Non-current liabilities | | |
| Obligations under finance leases | 1,010,646 | 1,010,646 |
| Borrowings | 4,209,955 | 4,209,955 |
| Provision for return condition checks for aircraft under operating leases | 639,556 | 639,556 |
| Other long-term liabilities | 248,218 | 248,218 |
| Deferred tax liabilities | 1,163 | 1,163 |
| Post-retirement benefit obligations | 417,369 | 417,369 |
| | 6,526,907 | 6,526,907 |
| Total liabilities | 16,580,042 | 16,580,042 |
| Net liabilities | 711,035 | 2,001,032 |
| Minority interests | 53,920 | 53,920 |
| Net liabilities acquired | 764,955 | 2,054,952 |