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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

For the month of August 2009

Commission File Number: 001-14550

China Eastern Airlines Corporation Limited

(Translation of Registrant's name into English)

2550 Hongqiao Road
Hongqiao Airport
Shanghai, China 200335

(Address of principal executive offices)

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

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

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

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

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

SIGNATURES

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

China Eastern Airlines Corporation Limited
(Registrant)

Date August 25, 2009	By	/s/ Luo Zhuping
		Name: Luo Zhuping
		Title: Company Secretary

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

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities in the Company.

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

MAJOR TRANSACTION
ABSORPTION OF SHANGHAI AIRLINES

Financial Adviser

A letter from the board of directors of China Eastern Airlines Corporation Limited (the ''Company'') is set out on pages 1 to 12 of this circular.

An extraordinary general meeting of the Company (the ''EGM'') and separate class meetings of the holders of H shares of the Company (the ‘‘H Shareholders Class Meeting’’) and the holders of A shares of the Company (the ‘‘A Shareholders Class Meeting’’), respectively will be held at Shanghai International Airport Hotel ( ), 2550 Hongqiao Road, Shan the People’s Republic of China at 2 : 00 p.m. and 2 : 30 p.m. respectively on Friday, 9 October 2009. Notices of the EGM and H Shareholders Class Meeting dated 25 August 2009 setting out the resolutions to be approved at the EGM and the H Shareholders Class Meeting are set out at the end of this circular. Proxy forms for use at the EGM and the H Shareholders Class Meeting and the attendance slips are also despatched together with this circular. If you intend to attend the EGM and/or the H Shareholders Class Meeting, you should complete and return the attendance slip in accordance with the instructions printed thereon as soon as possible.

Whether or not you intend to attend the EGM and/or the H Shareholders Class Meeting, you are requested to complete and return the proxy form in accordance with the instructions thereon and return it to Hong Kong Registrars Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 24 hours before the time appointed for holding such meetings or any adjournment thereof.

Completion and return of the proxy form will not preclude you from attending and voting at the EGM and/or the H Shareholders Class Meeting should you so wish.

25 August 2009

CONTENTS

DEFINITIONS

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

''Absorption Agreement''	means the agreement entered into between the Company and Shanghai Airlines on 10 July 2009 in relation to the Absorption Proposal;
''Absorption Proposal''	means the proposed absorption of Shanghai Airlines by the Company pursuant to the Absorption Agreement through the proposed issue of A Shares by the Company at the Exchange Ratio to exchange for SA Shares or the Cash Alternative;
''ADRs''	means the American depositary shares of the Company, which are listed on the New York Stock Exchange Inc.;
''Announcement''	means the announcement of the Company dated 10 July 2009 relating to, among other things, the proposed absorption of Shanghai Airlines pursuant to the Absorption Proposal;
''A Shareholders Class Meeting''	means the shareholders' meeting to be convened for the holders of A Shares on Friday, 9 October 2009, or any adjournment thereof, to consider, and if thought fit, approve the Absorption Proposal;
''A Shares''	means the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in RMB and are listed on the Shanghai Stock Exchange;
''Articles of Association''	means the articles of association of the Company;
''associates''	has the meaning ascribed thereto under the Listing Rules;
''Board''	means the board of directors of the Company;
''Business Day''	means a day (excluding Saturday and Sunday) on which the banks are generally open for business in the PRC;
''Buy-back Alternative''	means the right of the CEA Dissenting Shareholder to require the Buy-back Alternative Provider to buy-back its Shares as required by the applicable PRC laws and regulations (for example, (PRC Company Law) and (Mandatory Prov Listing Overseas)) and the Articles of Association;
''Buy-back Alternative Declaring Period''	means the period to be determined and announced by the Company in which CEA Dissenting Shareholder may declare their election of the Buy-back Alternative;

DEFINITIONS

‘‘Buy-back Alternative Exercise Day’’ means the day to be determined and announced by the Company on which the Buy-back Alternative Provider shall pay, and the CEA Dissenting Shareholder shall receive, cash in exchange for the Shares held by the CEA Dissenting Shareholders pursuant to the Absorption Proposal;

‘‘Buy-back Alternative Provider’’ means:

(i) in respect of any CEA Dissenting Shareholders who holds A Shares, State Development & Investment Corp. ( ) or wholly owned subsidiaries incorporated in the PRC; and

(ii) in respect of any CEA Dissenting Shareholders who holds H Shares, State Development & Investment Corp. ( ) or wholly owned subsidiaries incorporated outside the PRC,

each being an independent third party of the Company, which shall, at the Buy-back Alternative Exercise Day, pay the CEA Dissenting Shareholders in cash in exchange for the whole or part of A Shares or H Shares held by the CEA Dissenting Shareholders pursuant to the Absorption Proposal;

‘‘Cash Alternative’’ means the right of the SA Dissenting Shareholder to elect to receive cash from the Cash Alternative Provider pursuant to the Absorption Proposal as required by the applicable PRC laws and regulations (for example, 收購管理辦 (Administrative Measures in relation the Acquisition of the Listed Companies));

‘‘Cash Alternative Declaring Period’’ means the period to be determined and announced by the Company and Shanghai Airlines in which the SA Dissenting Shareholder may declare its election of the Cash Alternative;

‘‘Cash Alternative Exercise Day’’ means the day to be determined and announced by the Company and Shanghai Airlines on which the Cash Alternative Provider shall pay, and the SA Dissenting Shareholder shall receive, such cash in exchange for the SA Shares held by the SA Dissenting Shareholders pursuant to the Absorption Proposal;

DEFINITIONS

‘‘Cash Alternative Provider’’

means State Development & Investment Corp. ( ) or its wholly owned subsidia incorporated in the PRC, an independent third party of the Company, which shall, on the Cash Alternative Exercise Day, pay the SA Dissenting Shareholder in cash in exchange for the whole or part of the SA Shares held by such SA Dissenting Shareholders pursuant to the Absorption Proposal;

‘‘CEA Dissenting Shareholder’’

means the Shareholder who:

(i) has made Effective Dissenting Votes at the shareholders’ meetings of the Company convened for the purpose of approving the Absorption Proposal;

(ii) continuously holds the Shares representing the Effective Dissenting Votes until the Buy-back Alternative Exercise Day; and

(iii) has, within the Buy-back Alternative Declaring Period, duly declared all the Effective Dissenting Votes that enable it to exercise the Buy-back Alternative;

and excluding the following Shareholders:

(i) any Shareholder who is a director, supervisor and senior management person of the Company and whose Shares are subject to lock-up requirements;

(ii) any Shareholder whose Shares are subject to any pledge, third party rights or are frozen as a result of judicial proceedings;

(iii) any Shareholder who has committed to the Company that it will not elect to receive the Buy-back Alterative; or

(iv) any Shareholder who is not permitted to elect the Buy-back Alternative pursuant to applicable laws and regulations;

‘‘CCASS’’

the Central Clearing and Settlement System;

‘‘CEA Holding’’

means 中 東方航空集團 (China Eastern Air Holding Company), a wholly PRC state-owned enterprise and the controlling shareholder of the Company holding approximately 56.08% of its issued share capital as at the Latest Practicable Date;

DEFINITIONS

''CES Global''	means 東航 控股（香港）有限 (CES Global Holdings (Hong Kong) Limited), a company incorporated under the laws of Hong Kong, and an indirectly wholly owned subsidiary of CEA Holding and a substantial shareholder of the Company holding approximately 18.57% of its issued share capital as at the Latest Practicable Date;
''Company''	means 中 東方航空股份有限 (China Eastern Airlines Corporation Limited), a joint stock limited company incorporated in the PRC with limited liability, whose H Shares, A Shares and American depositary shares are listed on the Stock Exchange, the Shanghai Stock Exchange and the New York Stock Exchange, Inc., respectively;
''connected person''	has the meaning ascribed thereto under the Listing Rules;
''controlling shareholder''	has the meaning ascribed thereto under the Listing Rules;
''CSRC''	means the China Securities Regulatory Commission;
''Directors''	means the directors of the Company;
''Effective Dissenting Votes''	means any dissenting votes in relation to the Absorption Proposal effectively made by a shareholder through one of the two means: vote at the shareholders' meeting or vote through internet, and if the same share has been voted by both means, or if the same share has been voted for several times through internet, then ''Effective Dissenting Vote'' shall refer to the first vote;
''EGM''	means the extraordinary general meeting of the Company to be convened on Friday, 9 October 2009, or any adjournment thereof, to consider, and if thought fit, approve the Absorption Proposal;
''Enlarged Group''	means the Group after the completion of the proposed absorption of Shanghai Airlines;
''Exchange Ratio''	means the ratio at which 1.3 A Shares will be issued by the Company in exchange for every SA Share under the Absorption Proposal;
''Group''	means the Company and its subsidiaries;
''H Shareholders Class Meeting''	means the shareholders' meeting to be convened for the holders of H Shares on Friday, 9 October 2009, or any adjournment thereof, to consider, and if thought fit, approve the absorption;

''H Shares''	means the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than RMB and are listed on the Stock Exchange;
''HK$''	means Hong Kong dollars, the lawful currency of Hong Kong;
''Hong Kong''	means the Hong Kong Special Administrative Region of China;
''IFRS''	means the International Financial Reporting Standards;
''Latest Practicable Date''	means 20 August 2009, being the latest practicable date for ascertaining certain information referred to in this circular prior to the printing of this circular;
''Listing Rules''	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
''PRC'' or ''China''	means the People's Republic of China;
''Price Fixing Period''	means the 20 trading days ending on and including 5 June 2009;
''PwC''	means PricewaterhouseCoopers;
''RMB''	means Renminbi, the lawful currency of the PRC;
''SA Dissenting Shareholder''	means any SA Shareholder who: (i) has made the Effective Dissenting Votes at the shareholders' meeting of Shanghai Airlines convened for the purpose of approving the Absorption Proposal; (ii) continuously holds the SA Shares representing the Effective Dissenting Votes until the Cash Alternative Exercise Day; and (iii) has, within the Cash Alternative Declaring Period, duly declared all the Effective Dissenting Votes that enable it to exercise the Cash Alternative; and excluding the following SA Shareholders: (i) any SA Shareholder who is a director, supervisor and senior management person of Shanghai Airlines and whose SA Shares are subject to lock-up requirements; (ii) any SA Shareholder whose SA Shares are subject to any pledge, third party rights or are frozen as a result of judicial

proceedings;

DEFINITIONS

	(iii)	any SA Shareholder who has committed to Shanghai Airlines that it will not elect to receive the Cash Alterative; or
	(iv)	any SA Shareholder who is not permitted to elect the Cash Alternative pursuant to applicable laws and regulations;
‘‘SA Shareholders’’	means the shareholders of Shanghai Airlines;	
‘‘SA Shares’’	means the A shares of Shanghai Airlines issued and listed on Shanghai Stock Exchange;	
‘‘SFO’’	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);	
‘‘Shanghai Airlines’’	means 航空股份有限 (Shanghai Airlines Co., Ltd), a PRC airlines company with its entire shares listed on the Shanghai Stock Exchange;	
‘‘Shareholders’’	means the shareholders of the Company;	
‘‘Shares’’	means A Shares and H Shares;	
‘‘Stock Exchange’’	means The Stock Exchange of Hong Kong Limited;	
‘‘substantial shareholder’’	has the meaning ascribed thereto under the Listing Rules;	
‘‘Target Group’’	means Shanghai Airlines and its subsidiaries;	
‘‘trading day’’	with respect to A shares, means a day on which the Shanghai Stock Exchange is open for dealing or trading in securities; and with respect to H shares, means a day on which the Stock Exchange is open for dealing or trading in securities; and	
‘‘%’’	per cent.	

In this circular: (i) all figures have been rounded to the nearest two decimal places; (ii) for illustration purpose, an exchange rate of HK$1.00 to RMB0.88 has been applied; and (iii) for the avoidance of doubt, references to ‘‘not less than’’ a figure and ‘‘not more than’’ a figure shall include the figure mentioned.

LETTER FROM THE BOARD

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

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

Independent non-executive Directors:
Hu Honggao
Wu Baiwang
Zhou Ruijin
Xie Rong
Sandy Ke-Yaw Liu

Legal address:
66 Airport Street
International Airport
Pudong New District
Shanghai
PRC

Head office:
2550 Hongqiao Road
Shanghai
PRC

Principal place of business in
Hong Kong:
Unit B, 31/F.
United Centre
95 Queensway
Hong Kong

Hong Kong share registrar
and transfer office:
Hong Kong Registrars Limited
Rooms 1712–1716,
17th Floor Hopewell Centre
183 Wanchai Queen's Road East
Hong Kong

25 August 2009

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ABSORPTION OF SHANGHAI AIRLINES

1. INTRODUCTION

Reference is made to the announcement of the Company dated 10 July 2009 (the ''Announcement'') in relation to, among other things, the proposed absorption of Shanghai Airlines.

On 10 July 2009, the Company entered into the Absorption Agreement with Shanghai Airlines in relation to the Absorption Proposal. The Absorption Proposal, if fully implemented, will involve the issue of a maximum of 1,694,838,860 A Shares by the Company to the SA Shareholders on a record date to be determined and announced by the Company and Shanghai Airlines, in exchange for all the existing issued shares of Shanghai Airlines.

The purposes of this circular are, among other things:

(1) to provide you with further information in relation to the proposed absorption; and

(2) to give you notices of the EGM and the H Shareholders Class Meeting to consider and, if thought fit, to approve resolutions in relation to, among other things, the Absorption Proposal.

2. THE ABSORPTION PROPOSAL

The Exchange Ratio

The Company will exchange in aggregate a maximum of 1,303,722,200 SA Shares in the issued share capital of Shanghai Airlines by an issue of a maximum of 1,694,838,860 A Shares, meaning that for every SA Share, 1.3 A Shares will be issued. The Exchange Ratio has been determined on the following basis:

(1) the price per SA Share was determined at RMB5.50 based on the average trading price of SA Shares for a period of 20 trading days up to and including 5 June 2009, being the last trading day immediately before the suspension of trading of SA Shares on the Shanghai Stock Exchange pending release of an announcement of the Company in relation to the proposed negotiation on the terms of the Absorption Proposal;

(2) the price per A Share was determined at RMB5.28 based on the average trading price per A Share for a period of 20 trading days up to and including 5 June 2009, being the last trading day immediately before the suspension of trading of A Shares on the Shanghai Stock Exchange pending release of an announcement of the Company in relation to the proposed negotiation on the terms of the Absorption Proposal; and

(3) based on a risk premium of approximately 25%, for every SA Share, 1.3 A Shares will be issued, and for the avoidance of doubt, such risk premium is only available to those SA Shareholders who elect to exchange their SA Shares for A Shares.

In determining the level of the risk premium and the Exchange Ratio, the Company has taken into consideration factors including: (i) uncertainty in the fluctuation of the share prices of the Company that the SA Shareholders will have to face; (ii) the financial situation of Shanghai Airlines; (iii) the synergy effect that will be brought to bear on the business of the Company such as the ability to establish economies of scale, the increase in the market share of the Company in the air transportation market in Shanghai and the integrating of the flight route network and marketing network of the Company and Shanghai Airlines.

Rights of the Dissenting Shareholders

Subject to the Absorption Proposal becoming unconditional, the SA Dissenting Shareholders may elect to exercise the Cash Alternative to receive cash at the rate of RMB5.50 per SA Share. Such rate is determined based on the average trading price of SA Shares during the Price Fixing Period. The Cash Alternative will be provided by the Cash Alternative Provider. The SA Dissenting Shareholder who opts for the Cash Alternative should, within the Cash Alternative Declaring Period, declare altogether the Effective Dissenting Votes such SA Dissenting Shareholder owns.

Subject to the Absorption Proposal becoming unconditional, the CEA Dissenting Shareholders may elect to exercise the Buy-back Alternative to receive cash at the rates of RMB5.28 per A Share and HK$1.56 per H Share. Such rates are determined by reference to the average trading prices of A Shares and average trading prices of H Shares respectively during the Price Fixing Period. The Buy-back Alternative will be provided by the Buy-back Alternative Provider. The CEA Dissenting Shareholder who opts for the Buy-back Alternative should, within the Buy-back Alternative Declaring Period, declare altogether the Effective Dissenting Votes such CEA Dissenting Shareholder owns.

The cash to be received by a CEA Dissenting Shareholder who opts for the Buy-back Alternative is determined at a rate by reference to the average trading prices of A Shares and the average trading prices of H Shares respectively during the Price Fixing Period. The Board considers the Buy-back Alternative fair and reasonable and in the interest of the Shareholders as a whole.

Please also refer to paragraph 14 ''Investors whose H Shares held by nominee or trustee and holders of ADRs dissenting the Absorption Proposal'' of Appendix V ''General Information'' of this circular for more information relating to the Buy-back Alternative.

Absorption of Assets and Assumption of Liabilities

Upon full implementation of the Absorption Proposal, all the assets, business, staff and rights of Shanghai Airlines will be absorbed into and all the liabilities of Shanghai Airlines will be assumed by the Company or a wholly owned subsidiary of the Company to be used to absorb all the assets and assume all the liabilities of Shanghai Airlines pursuant to the Absorption Proposal.

To facilitate the obtaining of consents to the proposed absorption by the creditors of Shanghai Airlines and subject to the Absorption Proposal becomes unconditional, the Company may, if so required by the creditors of Shanghai Airlines, provide guarantees to those creditors of Shanghai Airlines in relation to all the relevant liabilities and contingent liabilities of Shanghai Airlines arising out of its provision of guarantees to other companies, which will be assumed by the Company or its wholly owned subsidiary to be used to absorb all the assets and assume all the liabilities of Shanghai Airlines. As of 30 June 2009, the total liabilities of Shanghai Airlines (prepared in accordance with PRC accounting regulations) amounts to approximately RMB13.35 billion and the amount of guarantees provided by Shanghai Airlines to other companies amounts to approximately RMB126.50 million (details of which please refer to Appendix I of this circular). The total amount of guarantee that the Company is to provide is expected to be not more than RMB13,481,053,813.65. Further announcement(s) will be made by the Company if required by the Listing Rules when the details of such guarantee(s) become available.

Shanghai Airlines shall deliver all its assets and, with the assistance of the Company, handle all the relevant registration and filing procedures within 4 months after the coming into effect of the Absorption Agreement, including but not limited to the registration and filing procedures in relation to the title to real property, intellectual property, shares and aircraft.

3. THE ABSORPTION AGREEMENT

On 10 July 2009, the Company entered into the Absorption Agreement with Shanghai Airlines in relation to the Absorption Proposal. In addition to the terms set out in section 2 above, the major terms and conditions of the Absorption Agreement include:

Parties	The Company and Shanghai Airlines.
Consideration	The Company will exchange in aggregate a maximum of 1,303,722,200 SA Shares in the issued share capital of Shanghai Airlines by an issue of a maximum of 1,694,838,860 A Shares, meaning that for every SA Share, 1.3 A Shares will be issued.

Subject to the Absorption Proposal becoming unconditional, the SA Dissenting Shareholders may elect to exercise the Cash Alternative to receive cash at the rate of RMB5.50 per SA Share, such rate is determined based on the average trading price of SA Shares during the Price Fixing Period. The Cash Alternative will be provided by the Cash Alternative Provider.

Conditions Precedents	The Absorption Agreement and the transactions contemplated thereunder shall become effective upon satisfaction of the following conditions:

(1) obtaining the approvals from (i) the Shareholders at the shareholders' meeting and the respective class meetings of the Company convened for such purpose; and (ii) the SA Shareholders at the shareholders' meeting of Shanghai Airlines convened for such purpose;

(2) obtaining the requisite consents and approvals from the State-owned Assets Administration Commission, the relevant governing authorities of the civil aviation industry, the Ministry of Commerce and CSRC; and

(3) obtaining the waiver from CSRC in relation to the requirement of a general offer by CEA Holding (if applicable).

Re-negotiation of the exchange ratio	In the event that a notice for convening the shareholders' meetings of the Company for purpose of approving the Absorption Proposal cannot be despatched to the Shareholders within 6 months after 10 July 2009, the Company and Shanghai Airlines shall hold other meetings of their respective board of directors to further discuss and determine the absorption proposal.
Termination	The Company and Shanghai Airlines shall use their best endeavors to procure the conditions precedents to be satisfied upon the later of: (i) 12 months after the shareholders' meetings of both the Company and Shanghai Airlines have approved the Absorption Agreement and the transactions contemplated thereunder; or (ii) otherwise agreed in writing by the parties (the ''Prescribed Period'').

If the conditions precedents cannot be fully satisfied or otherwise waived by the parties and the parties cannot reach an agreement on the extension of the Prescribed Period within 90 days after the expiration of the Prescribed Period, the Absorption Agreement shall be terminated automatically.

As at the Latest Practicable Date, except the approval from the State-owned Assets Administration Commission in relation to Absorption Proposal has been obtained, none of the other conditions precedents have been satisfied.

4. EFFECTS OF THE ABSORPTION PROPOSAL

The Absorption Proposal will involve the issue of A Shares at the Exchange Ratio by the Company to the SA Shareholders in exchange for SA Shares held by them. Subject to the approval of the CSRC and the Shanghai Stock Exchange, the A Shares to be issued for the purpose of the Absorption Proposal will be listed on the Shanghai Stock Exchange.

If the Absorption Proposal is implemented, a maximum total of 1,694,838,860 A Shares will be issued in exchange for SA Shares. Upon full implementation of the Absorption Proposal (assuming no other shares of the Company are to be issued between the Latest Practicable Date and implementation of the Absorption Proposal), the maximum total issued share capital of the Company will be 9,436,538,860 shares, comprising 3,004,325,000 H Shares and maximum 6,432,213,860 A Shares, representing approximately 31.84% and 68.16%, respectively, of the total issued share capital of the Company as enlarged by the issue of A Shares pursuant to the Absorption Proposal.

The A Shares issued to the SA Shareholders pursuant to the Absorption Proposal will be freely tradable and subject to certain lock-up arrangements applicable to certain substantial shareholders among the existing SA Shareholders. Details of such lock-up arrangements are currently not known. They are yet to be determined in due course through consultation with relevant PRC regulatory authorities. Further announcement(s) will be made by the Company when details of the lock-up arrangements have been determined.

5. REASONS FOR AND BENEFITS OF THE ABSORPTION PROPOSAL

The reasons for and benefits of the Absorption Proposal are:

The Company aims to optimize its airlines network, improve the operating efficiency of its resources, effectively reduce its operating costs, enhance its profitability and better serve the World Exposition to be held in Shanghai through the absorption of Shanghai Airlines. The absorption will expand the operations of the Company, improve its profitability, with a view to enhancing the interests of the Shareholders as a whole. Specifically, the absorption aims to achieve the following purposes:

(1) Strengthening the competitiveness of the Company

China has become one of the largest air transportation markets in the world. However, comparing to the leading international airlines in the world, the air transportation industry of China is still lacking in competitiveness due to its inability to establish economies of scale. The absorption will enable the Company to expand its market share in the air transportation market in Shanghai which is a transportation hub, increase the number of joint flights, expand its market coverage and facilitate the realization of the Company's strategic objective of positioning itself as an hub-networking air transportation company.

(2) Attaining synergy through integration of the resources

The Company and Shanghai Airlines are both airline carriers with Shanghai as their bases. There has been for a long time overlapping in the resources input into route operations and flights and aircraft services as the two companies run independently. With the absorption, the two companies can attain synergy in their use of aircraft fuel, purchases of aircraft, aircraft repair and maintenance, flight equipment, etc. In addition, they can realize the optimization of the route plans and flight schedules, enhancement of route network structure and improvement of transport efficiency. Accordingly, the operating costs and management fees can be reduced and the profitability can be improved.

(3) Promoting the evolution of Shanghai international air transportation centre

The implementation of the strategy of the Shanghai airport hub is vital for Shanghai to become an essential integral part of the international air transportation centre. The absorption will enable the Company to enhance its route network and number of aircraft. Meanwhile, a stronger based airline company can expedite the emergence of the Shanghai airport hub, which in turn will promote the evolution of Shanghai as an international air transportation centre.

Clearly, the above benefits more than outweigh the impact from the recent loss-making financial position of Shanghai Airlines. The Board believes that the terms of the Absorption Proposal are fair and reasonable and are in the interests of the Shareholders as a whole.

6. FINANCIAL IMPACT OF THE ABSORPTION

According to the Company's audited financial statements as at and for the year ended 31 December 2008 prepared in accordance with IFRS, the consolidated total assets of the Company amounted to RMB73.05 billion as at 31 December 2008, with a liabilities-to-assets ratio of 117.26%. According to the interim results announcement of the Company dated 10 August 2009, the unaudited consolidated total assets of the Company as at 30 June 2009 amounted to RMB72.84 billion, with a liabilities-to-assets ratio of 106.27%. Assuming the absorption of Shanghai Airlines were completed on 30 June 2009, the unaudited consolidated total assets of the Company on a pro forma basis would have increased to RMB97.63 billion, and the liabilities-to-assets ratio would have decreased to 95.46%. Upon completion of the absorption, the Company will become more financially secured and better shielded against risks, and its sustainable development in the future will be safeguarded.

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
			(Unit: RMB'000)			
Revenue	Shanghai Airlines	9,842,049	12,044,857	13,154,092	6,560,579	5,328,020
	the Company	37,556,852	42,533,893	41,072,557	20,267,185	17,130,451
Profit/(loss) for the year/period attributable to the equity holders	Shanghai Airlines	8,430	(531,971)	(1,199,420)	33,571	(270,547)
	the Company	(3,035,157)	378,568	(15,268,532)	(175,318)	984,654

Note: The financial data of Shanghai Airlines and the Company for the six months ended 30 June 2008 and the financial data of the Company for the six months ended 30 June 2009 are unaudited. Loss for the year ended 31 December 2006 attributable to the equity holders of the Company is restated according to the latest accounting policies adopted by the Company as further explained on page 104 of this circular. Other than the above, the remainders set out above represent audited data.

Upon completion of the absorption when all of the assets, liabilities, business operations and human resources of Shanghai Airlines will be consolidated to the Company, the scale of revenue of the Company will increase. In recent years, factors including the change in the overall economic landscape, the substantial fluctuation in international oil prices and the occurrence of natural disasters and unexpected circumstances in the PRC have contributed to a large fluctuation in the operating results of PRC domestic airlines including Shanghai Airlines and the Company. Upon completion of the absorption, the synergy in terms of sales and marketing, operating settlement, cost control and information infrastructure will provide positive impact to the future operating results of the Company.

7. IMPLICATIONS OF THE LISTING RULES

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, Shanghai Airlines and its beneficial owners (Shanghai Alliance Investment Limited, Bank of China Group Investment Limited and Jin Jiang International) are parties independent of the Company and independent of the connected persons of the

Company. To the best knowledge, information and belief of the Directors having made all reasonable enquiry, the ultimate beneficial owners of Shanghai Alliance Investment Limited, Bank of China Group Investment Limited and Jin Jiang International are not connected persons of the Company. The transactions contemplated under the Absorption Proposal do not constitute connected transactions of the Company.

The highest ‘‘size tests’’ percentage ratio applicable to the relevant share exchange through the Absorption Proposal is more than 25% but less than 100%. As a result, the Absorption Proposal will constitute a major transaction of the Company under Rule 14.06(3) of the Listing Rules. Further, the issue of A Shares pursuant to the Absorption Proposal will constitute a variation of class rights of the holders of A Shares and the holders of H Shares under the Articles of Association.

Pursuant to Rule 14.06(3), Rule 19A.38 of the Listing Rules and the Articles of Association, the Absorption Proposal is required to be approved by the Shareholders at a general meeting and separate class meetings. No Shareholder will be required to abstain from voting at any shareholders’ meeting to approve the Absorption Proposal.

8. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of Latest Practicable Date, the shareholding structure of the Company is as follows:

Note: The percentages shown are rounded to the nearest 2 decimal places.

Immediately after the full implementation of the Absorption Proposal (assuming that no other Shares has been issued after the Latest Practicable Date until the full implementation of the Absorption Proposal), it is anticipated that the shareholding structure of the Company will be as follows:

Note: The percentages shown are rounded to the nearest 2 decimal places.

The percentages shown are based on the assumption that none of the SA Shareholders or the Shareholders opts for the Cash Alternative or the Buy-back Alternative (as the case may be) pursuant to the Absorption Proposal.

As such, full implementation of the Absorption Proposal will not result in change of control of the Company.

9. RANKING OF NEW A SHARES TO BE ISSUED

The new A Shares to be issued pursuant to the Absorption Proposal will rank, upon issue, pari passu in all respects with the A Shares in issue at the time of issue and allotment of such new A Shares.

10. INFORMATION ABOUT THE PARTIES

The Company is an international airline company incorporated in the PRC whose H Shares, A Shares and ADRs are listed on the Stock Exchange, the Shanghai Stock Exchange and the New York Stock Exchange, Inc., respectively. The existing registered share capital of the Company is RMB7,741,700,000, which has been fully paid up.

Shanghai Airlines is a joint stock limited company established in the PRC, with its A shares listed on the Shanghai Stock Exchange. The shareholding structure of Shanghai Airlines as at 10 August 2009 is as follows:

Shanghai Airlines primarily engages in the business of domestic air transportation of passengers and cargo, agency business for airline companies, approved international and regional business for air transportation of passengers and cargo, domestic business flight, business flight in neighbouring countries and regions, approved management of business aircraft, and maintenance of aviation equipment and machinery. The listing status of Shanghai Airlines will not be maintained after the completion of the Absorption Proposal.

Based on the audited financial information of Shanghai Airlines prepared in accordance with PRC accounting regulations, the net asset value attributable to equity holders of Shanghai Airlines as at 31 December 2007 and 31 December 2008 and the net profit before tax and net profit after tax attributable to equity holders of Shanghai Airlines for the 2 financial years ended 31 December 2007 and 31 December 2008 respectively as stated in Shanghai Airlines' published annual reports are as follows:

	As at 31 December 2007 (RMB in million)	As at 31 December 2008 (RMB in million)
Net asset value attributable to equity holders of Shanghai Airlines	1,585.89	331.58

	For the year ended 31 December 2007 (RMB in million)	For the year ended 31 December 2008 (RMB in million)
Net profit before tax	(479.42)	(1,346.93)
Net profit after tax attributable to equity holders of Shanghai Airlines	(435.12)	(1,249.25)

11. EGM AND CLASS MEETINGS

The Company will convene the EGM and class meetings for the Shareholders to consider and, if thought fit, to approve, among other things, the proposed absorption. Details of the EGM and the H Shareholders Class Meeting and resolutions to be considered in these meetings are set out in the ''Notice of EGM'' and ''Notice of H Shareholders Class Meeting'' of this circular.

Persons who hold H Shares and are registered as holders of H Shares on the register of members maintained by Hong Kong Registrars Limited, at the close of business on Tuesday, 8 September 2009 will be entitled to attend the EGM and the H Shareholders Class Meeting upon completion of the necessary registration procedures.

Book closure

Holders of H Shares whose names appear on the register of members of the Company at the close of business on Tuesday, 8 September 2009 will be entitled to attend the EGM and the H Shareholders Class Meeting upon completion of the necessary registration procedures. The H Shares register of members will be closed from Wednesday, 9 September 2009 to Friday, 9 October 2009, both days inclusive, during which period no transfer of H Shares will be effected. Where applicable, holders of the H Shares intending to attend the EGM and the H Shareholders Class Meeting are therefore required to lodge their respective instrument(s) of transfer and the relevant share certificate(s) to the Company's H share registrar, Hong Kong Registrars Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 4:00 p.m. on Tuesday, 8 September 2009.

Proxy forms and attendance slips

Whether or not you intend to attend the EGM or the class meetings, you are requested to complete and return the relevant proxy form(s) in accordance with the instructions thereon. The proxy form should be returned as soon as possible and in any event not later than 24 hours before the time appointed for holding such meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the relevant meetings should you so wish.

If you are eligible and intend to attend the respective meetings, you are required to complete and return the relevant attendance slip(s) to in accordance with the instructions thereon. The attendance slip should be returned as soon as possible and in any event not later than 20 days before the date appointed for holding such meeting or any adjournment thereof.

12. RECOMMENDATION OF THE BOARD

The Directors believe that the terms of the Absorption Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM and the relevant class meetings in relation to the Absorption.

LETTER FROM THE BOARD

13. ADDITIONAL INFORMATION

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

By order of the Board
中 東方航空股份有限
CHINA EASTERN AIRLINES CORPORATION LIMITED
Luo Zhuping
Director and Company Secretary

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purpose of incorporation into this circular.

The Directors
China Eastern Airlines Corporation Limited

Dear Sirs

We set out below our report on the financial information (the ''Financial Information'') of Shanghai Airlines Co., Ltd. (the ''Target Company'') and its subsidiaries (together, the ''Target Group'') set out in Sections I to III below, for inclusion in the circular of China Eastern Airlines Corporation Limited (the ''Company'') dated 25 August 2009 (the ''Circular'') in connection with the proposed acquisition of the Target Company by the Company (the ''Proposed Acquisition''). The Financial Information comprises the consolidated balance sheets of the Target Group as at 31 December 2006, 2007 and 2008 and 30 June 2009, the balance sheets of the Target Company as at 31 December 2006, 2007 and 2008 and 30 June 2009, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Company for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 (the ''Relevant Periods''), and a summary of significant accounting policies and other explanatory notes.

The Target Company was established in the People's Republic of China (the ''PRC'') as a limited liability company on 25 October 2000. As at the date of this report, the Target Company has direct and indirect interests in subsidiaries, associated companies and joint controlled entities as set out in Notes 20, 21 and 22 of Section II below. All of these companies are private companies. The consolidated financial statements of the Target Company prepared in accordance with the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises in the PRC for the year ended 31 December 2006 and the consolidated financial statements of the Target Company prepared in accordance with the Accounting Standards for Business Enterprises (2006) of the PRC for the each of the years ended 31 December 2007 and 2008 and six months ended 30 June 2009 were audited by Shulun Pan Certified Public Accountants Co., Ltd..

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Target Company for the Relevant Periods (the ''Underlying Financial Statements'') in accordance with International Financial Reporting Standards (''IFRS'') issued by the International Accounting Standards Board. We have audited the Underlying Financial Statements for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 in accordance with International Standards on Auditing. The Financial Information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Target Company during the Relevant Periods are responsible for the preparation and the true and fair presentation of the consolidated financial statements of the Target Company in accordance with the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises in the PRC or the Accounting Standards for Business Enterprises (2006) of the PRC as appropriate. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements of the Target Company that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the Financial Information for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the Financial Information for the six months ended 30 June 2008, the directors of the Company are responsible for the preparation and the presentation of the Financial Information in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with IFRS.

REPORTING ACCOUNTANT'S RESPONSIBILITY

For the Financial Information for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements used in preparing the Financial Information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 ''Prospectuses and the Reporting Accountant'' issued by the Hong Kong Institute of Certified Public Accountants (the ''HKICPA'').

For the Financial Information for the six months ended 30 June 2008, our responsibility is to express a conclusion on the Financial Information based on our review and to report our conclusion to you. We conducted our review in accordance with International Standard on Review Engagements 2410 ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity''. A review of the Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, for the purpose of this report, gives a true and fair view of the state of affairs of the Target Company and of the Target Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 and of the Target Group's results and cash flows for the respective years and period then ended.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the Financial Information for the six months ended 30 June 2008, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with IFRS.

I. FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the Financial Information of the Target Company and the Target Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 and for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009.

(a) Consolidated Statements of Comprehensive Income

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenues	5	9,842,049	12,044,857	13,154,092	6,560,579	5,328,020
Other income	6	3,968	45,377	81,637	42,407	314,875
Other gains/(losses)	6	20,223	(120,780)	14,877	123	(1,294)
Operating expenses						
Aircraft fuel		(2,770,045)	(3,703,668)	(4,957,548)	(2,205,349)	(1,400,255)
(Loss)/gain on fair value movements of fuel option contracts	8	—	—	(181,119)	—	51,693
Take-off and landing charges		(855,101)	(1,045,877)	(1,127,735)	(527,224)	(587,617)
Depreciation and amortization		(654,342)	(746,914)	(726,271)	(357,496)	(414,516)
Wages, salaries and benefits	9	(901,986)	(1,192,078)	(1,412,436)	(654,572)	(778,364)
Aircraft maintenance		(493,061)	(726,249)	(963,405)	(509,242)	(385,503)
Food and beverages		(119,409)	(118,207)	(132,993)	(66,115)	(73,264)
Aircraft operating lease rentals		(798,194)	(1,103,385)	(1,194,585)	(581,744)	(590,425)
Transportation, accommodation and meals		(1,033,771)	(1,222,629)	(1,244,097)	(690,046)	(457,577)
Cost of inventories		(832,324)	(963,734)	(681,483)	(337,131)	(258,001)
Other operating lease rentals		(67,889)	(83,867)	(171,013)	(77,536)	(71,220)
Selling and marketing expenses		(437,328)	(511,972)	(561,096)	(266,769)	(288,645)
Civil aviation infrastructure levies		(183,320)	(220,252)	(235,739)	(114,881)	(130,468)
		(576,759)	(804,783)	(861,009)	(373,634)	(340,341)

Office, administrative and other expenses						
Total operating expenses		(9,723,529)	(12,443,615)	(14,450,529)	(6,761,739)	(5,724,503)
Operating profit/(loss)	10	142,711	(474,161)	(1,199,923)	(158,630)	(82,902)
Finance income	11	143,102	283,481	296,975	298,064	11,851
Finance costs	12	(273,895)	(374,964)	(396,834)	(204,578)	(181,783)
Share of results of associates	21	5,831	6,265	8,087	5,007	4,447
Share of results of jointly controlled entities	22	(1,629)	3,799	1,245	440	2,943
Profit/(loss) before income tax		16,120	(555,580)	(1,290,450)	(59,697)	(245,444)
Income tax	13	(22,873)	(18,148)	(15,403)	(8,787)	(20,811)
Loss for the year/period		(6,753)	(573,728)	(1,305,853)	(68,484)	(266,255)
Other comprehensive income/(expense) for the year/period		5,079	3,169	(4,575)	(4,976)	2,449
Fair value movements of available-for-sale financial assets, net of tax		3,253	1,440	(4,566)	(4,486)	2,626
Other income/(expense) recognised directly in equity		1,826	1,729	(9)	(490)	(177)
Total comprehensive loss for the year/period		(1,674)	(570,559)	(1,310,428)	(73,460)	(263,806)

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	Note	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (Unaudited)	2009 RMB'000
Profit/(loss) attributable to:	15					
— Equity holders of the Target Company		8,430	(531,971)	(1,199,420)	33,571	(270,547)
— Minority interests		(15,183)	(41,757)	(106,433)	(102,055)	4,292
		(6,753)	(573,728)	(1,305,853)	(68,484)	(266,255)
Total comprehensive income/(loss) attributable to:						
— Equity holders of the Target Company		13,509	(528,802)	(1,203,995)	28,595	(268,098)
— Minority interests		(15,183)	(41,757)	(106,433)	(102,055)	4,292
		(1,674)	(570,559)	(1,310,428)	(73,460)	(263,806)
Earnings/(loss) per share attributable to the equity holders of the Target Company during the year/period						
— Basic and diluted (RMB)	16	0.01	(0.49)	(1.11)	0.03	(0.25)

(b) Consolidated Balance Sheets

	Note	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	30 June 2009 RMB'000
Non-current assets					
Intangible assets		20,619	17,293	15,291	21,874
Property, plant and equipment	17	7,698,080	7,711,010	8,578,881	8,696,469
Lease prepayments	18	148,554	145,183	118,682	117,244
Advanced payments on acquisition of aircraft	19	949,006	1,879,092	2,535,437	2,966,923
Investments in associates	21	51,792	54,257	57,929	55,085
Investments in jointly controlled entities	22	14,165	17,124	18,369	19,587
Available-for-sale financial assets	23	80,127	144,749	178,519	181,945
Other long-term assets	24	444,706	505,202	514,008	542,208
Deferred tax assets	35	4,791	6,425	7,728	7,470
		9,411,840	10,480,335	12,024,844	12,608,805
Current assets					
Flight equipment spare parts		275,371	299,522	383,717	392,576
Trade receivables	25	587,863	804,645	524,975	489,262
Amounts due from related companies	41(b)(i)	225	1,756	5,740	2,935
Prepayments, deposits and other receivables	26	432,587	604,929	500,784	749,070
Cash and cash equivalents	27	621,960	944,174	1,055,936	1,951,542
		1,918,006	2,655,026	2,471,152	3,585,385
Current liabilities					
Sales in advance of carriage		157,848	192,232	238,544	194,547
Trade payables and notes payable	28	897,891	1,159,915	1,378,917	1,340,061
Amounts due to related companies	41(b)(i)	—	2,445	4,513	12,339
Other payables and accrued expenses	29	1,219,793	1,835,579	1,859,587	1,744,648
Short term debentures	30	800,000	800,000	—	—
Current portion of obligations under finance leases	31	—	32,208	69,430	71,861
Current portion of borrowings	32	2,653,910	3,882,581	6,084,068	7,203,120

Income tax payable		13,765	7,955	4,020	20,250
Current portion of provision for return condition checks for aircraft under operating leases	33	35,510	—	—	—
Derivative financial instrument	8	—	—	172,458	58,037
		5,778,717	7,912,915	9,811,537	10,644,863
Net current liabilities		(3,860,711)	(5,257,889)	(7,340,385)	(7,059,478)
Total assets less current liabilities		5,551,129	5,222,446	4,684,459	5,549,327

		As at 31 December			30 June
		2006	2007	2008	2009
	Note	RMB’000	RMB’000	RMB’000	RMB’000
Non-current liabilities					
Obligations under finance leases	31	—	466,748	1,085,354	1,048,516
Borrowings	32	3,337,295	2,916,205	2,781,675	2,854,788
Provision for return condition checks for aircraft under operating leases	33	301,727	396,986	523,791	599,063
Other long-term liabilities	34	88,598	141,446	199,901	233,601
Deferred tax liabilities	35	217	375	142	295
Post-retirement benefit obligations	36	396,753	411,963	401,336	413,281
		4,124,590	4,333,723	4,992,199	5,149,544
Net assets/(Liabilities)		1,426,539	888,723	(307,740)	399,783
Equity					
Capital and reserves attributable to the equity holders of the Target Company					
Share capital	37	1,081,500	1,081,500	1,081,500	1,303,722
Reserves	38	289,825	(238,977)	(1,442,972)	(952,852)
		1,371,325	842,523	(361,472)	350,870
Minority interests		55,214	46,200	53,732	48,913
Total equity		1,426,539	888,723	(307,740)	399,783

(c) Company Balance Sheets

	Note	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	As at 30 June 2009 RMB'000
Non-current assets					
Intangible assets		19,277	15,607	12,196	18,623
Property, plant and equipment	17	7,384,894	7,317,889	8,120,885	8,242,516
Lease prepayments	18	148,379	145,049	118,590	117,172
Advanced payments on acquisition of aircraft	19	949,006	1,879,092	2,535,437	2,966,923
Investments in subsidiaries	20	281,022	327,436	470,436	470,436
Investments in associates	21	40,000	40,000	40,000	40,000
Investment in a jointly controlled entity	22	15,000	15,000	15,000	15,000
Available-for-sale financial assets	23	78,028	142,374	177,521	180,315
Other long-term assets	24	423,944	457,431	448,909	434,155
Deferred tax assets	35	4,422	5,945	6,665	6,024
		9,343,972	10,345,823	11,945,639	12,491,164
Current assets					
Flight equipment spare parts		259,887	278,910	345,990	347,670
Trade receivables	25	261,209	326,068	197,331	201,407
Amounts due from related companies	41(b)(i)	60,521	63,470	34,622	52,366
Amounts due from subsidiaries	41(b)(ii)	50,000	70,000	50,000	75,000
Prepayments, deposits and other receivables	26	179,008	159,379	263,354	517,108
Cash and cash equivalents	27	305,501	389,036	434,188	1,482,058
		1,116,126	1,286,863	1,325,485	2,675,609
Current liabilities					
Sales in advance of carriage		160,551	205,485	242,078	185,639
Trade payables and notes payable	28	704,528	812,253	939,130	930,326
Amounts due to related companies	41(b)(i)	—	2,445	4,513	12,231
Other payables and accrued expenses	29	772,362	1,078,022	1,310,837	1,180,308
Short term debentures	30	800,000	800,000	—	—

Current portion of obligations under finance leases	31	—	32,208	69,430	71,861
Current portion of borrowings	32	2,520,060	3,515,081	5,730,568	6,826,620
Income tax payable		6,865	—	—	—
Current portion of provision for return condition checks for aircraft under operating leases	33	35,510	—	—	—
Derivative financial instrument	8	—	—	172,458	58,037
		4,999,876	6,445,494	8,469,014	9,265,022
Net current liabilities		(3,883,750)	(5,158,631)	(7,143,529)	(6,589,413)
Total assets less current liabilities		5,460,222	5,187,192	4,802,110	5,901,751

		As at 31 December			As at 30 June
		2006	2007	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities					
Obligations under finance leases	31	—	466,748	1,085,354	1,048,516
Borrowings	32	3,337,295	2,888,205	2,753,675	2,824,788
Provision for return condition checks for aircraft under operating leases	33	207,984	272,110	360,010	410,986
Other long-term liabilities	34	88,598	141,446	196,401	230,101
Post-retirement benefit obligations	36	374,648	388,204	367,440	377,571
		4,008,525	4,156,713	4,762,880	4,891,962
Net assets		1,451,697	1,030,479	39,230	1,009,789
Equity					
Share capital	37	1,081,500	1,081,500	1,081,500	1,303,722
Reserves	38	370,197	(51,021)	(1,042,270)	(293,933)
Total equity		1,451,697	1,030,479	39,230	1,009,789

(d) Consolidated Cash Flow Statements

	Note	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (Unaudited)	2009 RMB'000
Cash flows from operating activities						
Cash generated from operations	39(a)	1,518,699	852,554	404,725	(260,725)	54,031
Income tax paid		(27,868)	(26,177)	(19,920)	(17,119)	(4,970)
Net cash inflow/(outflow) from operating activities		1,490,831	826,377	384,805	(277,844)	49,061
Cash flows from investing activities						
Additions of property, plant and equipment and intangible assets		(1,130,664)	(618,005)	(488,506)	(149,659)	(359,696)
Proceeds from disposal of property, plant and equipment		48,940	496,587	2,013	276	1,584
Acquisition of land use rights		—	(27)	—	—	—
Advanced payments on acquisition of aircraft		(920,477)	(1,210,250)	(1,055,368)	(976,965)	(557,824)
Repayments of advances on aircraft and flight equipment		—	204,760	222,379	76,287	—
Interest received		7,214	11,041	16,270	6,258	8,058
Dividend received		3,639	4,815	5,415	5,415	956
Capital injections in a jointly controlled entity		(500)	—	—	—	—
Capital injections in associates		(1,078)	(175)	(1,000)	—	—
Proceeds from disposal of available-for-sale		—	2,649	6,847	—	—

financial assets					
Purchase of available-for-sale financial assets	—	(63,034)	—	—	—
Net cash outflow from investing activities	(1,992,926)	(1,171,639)	(1,291,950)	(1,038,388)	(906,922)

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from financing activities						
Proceeds from draw down of short-term bank loans		2,968,370	4,716,949	5,983,335	3,338,929	3,747,456
Repayments of short-term bank loans		(2,949,769)	(3,314,778)	(4,298,679)	(1,962,640)	(3,110,341)
Proceeds from draw down of long-term bank loans		1,206,166	417,811	1,243,618	693,986	1,006,813
Repayments of long-term bank loans		(1,151,175)	(726,981)	(589,221)	(269,019)	(450,220)
Principal repayments of finance lease obligations		—	(2,310)	(36,997)	(30,911)	(33,959)
Receipt of restricted bank deposit		—	—	—	—	46,921
Payments of restricted bank deposit		—	—	(46,921)	(46,921)	(171,835)
Interest paid		(302,746)	(445,715)	(546,070)	(254,893)	(260,416)
Proceeds from issuance of short-term debentures		774,960	800,000	—	—	—
Repayments of short-term debentures		—	(800,000)	(800,000)	—	—
New share issue	37	—	—	—	—	980,440
Contributions from minority shareholders of subsidiaries		58,164	38,717	119,400	117,000	—
Dividends paid		(37,682)	(5,974)	(5,435)	—	(1,040)
Net cash inflow from financing activities		566,288	677,719	1,023,030	1,585,531	1,753,819
		64,193	332,457	115,885	269,299	895,958

Net increase in cash and cash equivalents					
Cash and cash equivalents at beginning of the year/period	558,714	621,960	944,174	944,174	1,055,936
Exchange adjustments	(947)	(10,243)	(4,123)	(1,960)	(352)
Cash and cash equivalents at end of the year/period	621,960	944,174	1,055,936	1,211,513	1,951,542

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(e) Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Target Company					
	Share capital RMB'000	Other reserves RMB'000	Retained profits/ (accumulated losses) RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2006	1,081,500	624,064	(315,301)	1,390,263	17,468	1,407,731
Total comprehensive income/ (loss) for the year ended 31 December 2006	—	5,079	8,430	13,509	(15,183)	(1,674)
Capital injection	—	—	—	—	58,164	58,164
Dividend paid	—	—	(32,447)	(32,447)	(5,235)	(37,682)
Appropriation to statutory and discretionary reserves	—	5,304	(5,304)	—	—	—
Balance at 31 December 2006	1,081,500	634,447	(344,622)	1,371,325	55,214	1,426,539
Balance at 1 January 2007	1,081,500	634,447	(344,622)	1,371,325	55,214	1,426,539
Total comprehensive income/ (loss) for the year ended 31 December 2007	—	3,169	(531,971)	(528,802)	(41,757)	(570,559)
Capital injection	—	—	—	—	38,717	38,717
Dividend paid to minority interests in subsidiaries	—	—	—	—	(5,974)	(5,974)
Balance at 31 December 2007	1,081,500	637,616	(876,593)	842,523	46,200	888,723
Balance at 1 January 2008	1,081,500	637,616	(876,593)	842,523	46,200	888,723
Total comprehensive loss for						

the year ended 31 December 2008	—	(4,575)	(1,199,420)	(1,203,995)	(106,433)	(1,310,428)
Capital injection	—	—	—	—	119,400	119,400
Dividend paid	—	—	—	—	(5,435)	(5,435)
Balance at 31 December 2008	1,081,500	633,041	(2,076,013)	(361,472)	53,732	(307,740)
Balance at 1 January 2009	1,081,500	633,041	(2,076,013)	(361,472)	53,732	(307,740)
Total comprehensive income/(loss) for the six months ended 30 June 2009	—	2,449	(270,547)	(268,098)	4,292	(263,806)
New share issue (Note 37)	222,222	758,218	—	980,440	—	980,440
Dividend paid to minority interests in subsidiaries	—	—	—	—	(9,111)	(9,111)
Balance at 30 June 2009	1,303,722	1,393,708	(2,346,560)	350,870	48,913	399,783
Unaudited:						
For the six months ended 30 June 2008						
Balance at 1 January 2008	1,081,500	637,616	(876,593)	842,523	46,200	888,723
Total comprehensive (loss)/income for the six months ended 30 June 2008	—	(4,976)	33,571	28,595	(102,055)	(73,460)
Capital injection	—	—	—	—	117,000	117,000
Balance at 30 June 2008	1,081,500	632,640	(843,022)	871,118	61,145	932,263

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II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company, a joint stock company limited by shares, was established in the PRC on 25 October 2000. The Target Company listed its A shares on The Shanghai Stock Exchange on 11 October 2002. The registered address of the Target Company is 100 Airport Street, Pudong International Airport, Shanghai, the PRC.

The Target Group is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, and mail delivery, other extended transportation services, export and import trading, tour operations and the provision of freight forwarding services, etc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented, unless otherwise stated.

(a) Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards (''IFRS''). It has 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 Information 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 Target Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

In preparing the Financial Information, the Company's directors have given careful consideration to the going concern status of the Target Group in the context of the Target Group's current working capital requirements.

The Target Group's accumulated losses were approximately RMB2,347 million as at 30 June 2009 and its current liabilities exceeded its current assets by approximately RMB7,059 million. Against this background, the Target Company's management has taken active steps to seek additional sources of finance to improve the Target Group's liquidity position. At 30 June 2009, the Target Group had total un-used contracted credit facilities of approximately RMB14.9 billion from banks.

Based on the Target Group's history of obtaining finance and generating cash from operation, the Company's directors believes that the Target Group will be able to generate/obtain sufficient operating funds/financing to enable it to operate and meet its liabilities as and when they fall due. Accordingly, the Company's directors consider it is appropriate that the Financial Information should be prepared on a going concern basis and do not include any adjustments that would be required should the Target Company and the Target Group fail to continue as a going concern.

The following standards, interpretations and amendments to existing standards which are relevant to the Target Group's operations but are not yet effective for the Relevant Periods and have not been early adopted by the Target

Group:

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

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

- Amendment to IFRS 8 ''Operating segments'', effective for periods beginning on or after 1 January 2010. Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the CODM. The Target Group will apply IFRS 8 (amendment) from 1 January 2010.

- Amendment to IAS 7 ''Statement of cash flows'', effective for periods beginning on or after 1 January 2010. Only expenditures that result in a recognised asset are eligible for classification as investing activities. The Target Group will apply IAS 7 (amendment) from 1 January 2010.

- Amendment to IAS 17 ''Leases'', effective for periods beginning on or after 1 January 2010. The amendment removes the specific guidance on the classification of long-term leases of land as operating leases. When classifying land leases, the general principles applicable to the classification of leases should be applied. The classification of land leases has to be reassessed on adoption of the amendment on the basis of information existing at inception of the leases. The Target Group will apply IAS 17 (amendment) from 1 January 2010.

- Amendment to IAS 36 ''Impairment of assets'', effective for periods beginning on or after 1 January 2010. This clarifies that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment before any aggregation as defined in IFRS 8. The Target Group will apply IAS 36 (amendment) from 1 January 2010.

- Amendment to IAS 38 ''Intangible assets'', effective for periods beginning on or after 1 July 2009. This clarifies the description of the valuation techniques commonly used to measure intangible assets acquired in a business combination when they are not traded in an active market. In addition, an intangible asset acquired in a business combination might be separable but only together with a related contract, identifiable asset or liability. In such cases, the intangible asset is recognised separately from goodwill but together with the related item. The Target Group will apply IAS 38 (amendment) from 1 January 2010.

- Amendment to IAS 39 ''Financial instruments: recognition and measurement'', effective for periods beginning on or after 1 January 2010. Loan prepayment penalties are treated as closely related embedded derivatives, only if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. In addition, the scope exemption to business combination contracts only applies to forward contracts that are firmly committed to be completed between the acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date. Therefore option contracts are not in this scope exemption. This amendment also clarifies that in a cash flow hedge of a forecast transaction that a reclassification of the gains or losses on the hedged item from equity to profit or loss is made during the period the hedged forecast cash flows affect profit or loss. The Target Group will apply IAS 39 (amendment) from 1 January 2010.

- Amendment to IFRIC 9 ''Reassessment of embedded derivatives'', effective for periods beginning on or after 1 July 2009. This amendment aligns the scope of IFRIC 9 to the scope of IFRS 3 (revised): the interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a common control combination or the formation of a joint venture. The Target Group will apply IFRIC 9 (amendment) from 1 January 2010.

(b) Consolidation

The Financial Information includes the financial statements of the Target Company and all of its subsidiaries made up in the Relevant Periods.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Target 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 Target Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Target 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 Target Group. 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 Target Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss in the consolidated statement of comprehensive income.

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

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

(ii) Associates

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

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

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

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

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

(iii) Jointly controlled entities

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

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

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

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

(c) Segmental reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss in the statement of comprehensive income, 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 Target Group's activities. Revenue is shown net of business and value-added taxes, returns, rebates and discounts and after eliminating sales within the Target Group.

The Target Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Target 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 Target Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Traffic revenues

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

(ii) Tour operation revenues

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

(iii) Other revenue

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

Revenue from the sale of goods in connection with the import and export business is recognised when the significant risks and rewards of ownership have been transferred to the customer and collectability of the related receivables is reasonably assured. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(f) Government grants

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

Government grants relating to costs are deferred and recognised in the profit and loss in the statement of comprehensive income 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 profit and loss in the statement of comprehensive income 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 Target Group has the responsibility to fulfill certain return conditions under the leases. Provision for the estimated cost of these return condition checks is made on a straight line basis over the term of the leases. Costs incurred for periodic overhauls during the lease periods are charged to profit and loss in the statement of comprehensive income as and when incurred.

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

All other repairs and maintenance costs are charged to profit and loss in the statement of comprehensive income as and when incurred.

(h) Interest income

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

(i) Borrowing costs

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

(j) Current and deferred income 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 Target 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 realised or the deferred income tax liability is settled.

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

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

(k) Intangible assets

Intangible assets represent acquired computer software licenses which are capitalised on the basis of the costs incurred to acquire and being to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives.

(l) Property, plant and equipment

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

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

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

Except for components related to aircraft 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 to their residual values over their estimated useful lives, as follows:

Aircraft, engines and flight equipment	10 to 20 years
Buildings	40 to 45 years
Other property, plant and equipment	5 to 18 years

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

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

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

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

(n) Lease prepayments

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

(o) 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.

(p) Flight equipment spare parts

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

(q) Trade receivables

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

(r) 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.

(s) Borrowings

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

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(u) Leases

Finance leases

The Target Group leases certain property, plant and equipment. Leases of property, plant and equipment, including aircraft, where the Target Group has acquired substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current portion and non-current portion of obligations under finance leases. The interest element of the finance cost is charged to profit and loss in the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets are depreciated using a straight-line basis over their expected useful lives to residual values.

For sale and leaseback transactions resulting in a finance lease, differences between sales proceeds and net book values are deferred and amortised over the minimum lease terms.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss in the statement of comprehensive income on a straight-line basis over the period of the lease.

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognised immediately in the profit and loss in the statement of comprehensive income, except to the extent that any profit or loss is compensated by future lease payments at above or below market value.

(v) Employee benefits

Employee benefits mainly include salaries, bonuses, allowances and subsidies, retirement benefit obligations, housing funds and other expenses related to the employees for their services. The Target Group recognizes employee benefits as liabilities during the accounting period when employees rendered services and allocates them to the related expenses based on different beneficiaries.

(i) Retirement benefit obligations

The Target Group primarily pays contributions on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. Except for the post retirement benefits that the Target Group provides to certain eligible employees as described in the following paragraph, the Target Group has no legal or constructive obligations for further contributions if the funds do not hold sufficient assets to pay all employees the benefit relating to their current and past services.

In addition to making contributions to the above defined contribution retirement benefit plans, the Target Group also provides certain post-retirement subsidies to certain employees. These post- retirement benefits constitute defined benefit obligation under IFRS. The liabilities recognised in the balance sheet in respective of these defined benefit obligations are the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefits 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 gain and losses arising from experience adjustment and changes in actuarial assumptions in excess of the greater of 10% of the value of planed assets or 10% of the defined benefit obligation are charged or credited to the profit and loss in the statement of comprehensive income statement over the employees' expected average remaining working lives.

Past-service cost are recognised immediately in the profit and loss in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specific period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) Housing funds

The Target Group provides housing funds based on certain percentages of salaries and at no more than the upper limits of the requirements. These benefits are paid to social security organisations and the amounts paid are expensed as incurred. The Target Group has no legal or constructive obligations for further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to their current and past services.

(w) Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

As described in the felling paragraph, derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments and any unrealised gains or losses, being changes in fair value of the derivatives, are recognised in the profit and loss in the statement of comprehensive income 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.

(x) Available-for-sale financial assets

Investments in securities other than subsidiaries, associates and jointly controlled entities, being held for non- trading purposes, are classified as available-for-sale financial assets and are recognised on the trade-date, being the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. At each balance sheet date, the fair value is remeasured, with any resulting gain or loss being recognised directly in equity, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the profit and loss in the statement of comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where fair value of unquoted investments cannot be measured reliably, the related investments are stated at cost less impairment losses.

The Target Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the securities below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in the profit and loss in the statement of comprehensive income, is removed from equity and recognised in the profit and loss in the statement of comprehensive income. Impairment losses recognised in the profit and loss in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

(y) Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Financial Information in the period in which the dividends are approved by the Target Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Target 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 Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. The Target Group uses derivative financial instruments to manage certain risk exposures.

(i) Foreign currency risk

Since 21 July 2005, the PRC government reformed the Renminbi exchange rate system and established a floating exchange rate system in which the exchange rate would be adjusted and managed based on market supply and demand with reference to a basket of foreign currencies. The fluctuation in the 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 Target Group operates its business in several countries and territories. The Target 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 Target Group's major liability item (purchases and leases of aircraft) is mainly priced and settled in US dollars. In addition, fluctuations in exchange rates will affect the Target Group's costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges at foreign airports.

The following table details the Target Group's and the Target Company's exposure at the balance sheet date to major currency risk which is primarily attributable to US dollars.

	Target Group			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	25,192	36,510	47,144	78,824
Cash and cash equivalents	34,411	151,483	45,665	54,539
Trade and other payables	(83,328)	(156,042)	(149,111)	(115,532)
Obligations under finance leases	—	(498,956)	(1,154,784)	(1,120,377)
Borrowings	(4,198,596)	(4,303,086)	(3,670,354)	(4,079,153)

Net balance sheet exposure	(4,222,321)	(4,770,091)	(4,881,440)	(5,181,699)

Target Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	2,261	1,162	21,454	54,493
Cash and cash equivalents	17,789	134,465	37,907	30,690
Trade and other payables	(14,106)	(39,839)	(74,497)	(83,691)
Obligations under finance leases	—	(498,956)	(1,154,784)	(1,120,377)
Borrowings	(4,198,596)	(4,303,086)	(3,670,354)	(4,079,153)
Net balance sheet exposure	(4,192,652)	(4,706,254)	(4,840,274)	(5,198,038)

The following table indicates the approximate change in the Target Group's and the Target Company's profit and loss in response to a 5% appreciation of the RMB against US dollars at the balance sheet date with all other variables held constant.

Target Group

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Increase in profit after tax	211,116	238,505	244,072	259,085

Target Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Increase in profit after tax	209,633	235,313	242,014	259,902

(ii) Interest rate risk

The Target Group's interest-rate risk primarily arises from borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Target Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Target Group to fair value interest-rate risk. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the Target Group's borrowings at variable rates were primarily denominated in US dollars. The interest rates and terms of repayment of borrowings made to the Target Group are disclosed in Notes 32 to the Financial Information. The Target Group's obligations under finance leases were principally at variable rates and denominated in US dollars as disclosed in Notes 31 to the Financial Information.

The Target Group currently does not have any interest hedging/swap contracts. To mitigate the impact of interest rate fluctuations, the Target Company's management closely monitors the Target Group's exposure to interest rate risk.

The following table indicates the approximate change in the Target Group's and the Target Company's profit and loss if interest rate had been 25 basis points higher with all other variables held constant.

	Target Group			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Decrease in profit after tax	(13,358)	(17,272)	(20,642)	(11,449)

	Target Company			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Decrease in profit after tax	(13,076)	(16,591)	(19,522)	(11,455)

(iii) Fuel price risk

The Target Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense for the Target Group. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, aircraft fuel accounted for 28%, 30%, 34% and 24% of the Target Group's operating expenses respectively. The Target Group entered into fuel option contract in 2008 to hedge against fuel price risk although the fuel option contract does not qualify for hedge accounting. Details of the fuel option contract are disclosed in Note 8 to the Financial Information.

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, if the fuel price had been 5% higher/lower with all other variables held constant (excluding the impact of fuel option contracts), the Target Group's fuel cost would have been RMB139 million, RMB185 million, RMB248 million and RMB70 million higher/lower respectively.

(iv) Credit risk

The Target Group's credit risk is primarily attributable to cash and cash equivalents, restricted cash, trade and other receivables and derivative financial instruments as well as credit exposures to sales agents. The Target Group has established different credit policies for customers in each of its core businesses. The average credit period granted to trade debtors was 60 days. The Target Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure adequate impairment losses are made for irrevocable amounts.

The Target 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 Target Group's air tickets are sold by agents participating in the Billing and Settlements Plan (''BSP''), a clearing system between airlines and sales agents organised by the International Air Transportation Association. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the balance due from BSP agents amounted to approximately RMB113 million, RMB150 million, RMB75 million and RMB116 million respectively.

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

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

The Target 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 Target Company's management does not expect any loss to arise from non-performance by these banks.

(v) Liquidity risk

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

The Target Group generally operates with a working capital deficit. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Target Group's net current liabilities amounted to RMB3,861 million, RMB5,258 million, RMB7,340 million and RMB7,059 million respectively. For each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, the Target Group recorded a net cash inflow from operating activities of RMB1,519 million, RMB853 million, RMB405 million and RMB54 million respectively, a net cash outflow from investing activities and financing activities of RMB1,426 million, RMB494 million, RMB267 million and net cash inflow of RMB847 million respectively, and an increase in cash and cash equivalents of RMB64 million, RMB332 million, RMB116 million and RMB896 million respectively.

Due to the dynamic nature of the underlying businesses, the Target Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Target Company's management monitors rolling forecasts of the Target Group's liquidity reserves on the basis of expected cash flows.

The directors of the Company believe that the Target Group has obtained sufficient general credit facilities from PRC banks and generated adequate cash from operations for financing future capital commitments and for working capital purposes (see Notes 2(a)).

The table below analyses the financial liabilities of the Target Group and the Target Company 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:

	Target Group			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2006				
Short term debentures	800,000	—	—	—
Borrowings	2,891,292	730,380	1,769,798	1,694,534
Trade, notes and other payables	2,117,684	—	—	—

Total	5,808,976	730,380	1,769,798	1,694,534
At 31 December 2007				
Short term debentures	800,000	—	—	—
Borrowings	4,123,129	783,820	1,562,454	1,221,386
Obligations under finance leases	54,784	54,590	164,089	381,686
Trade, notes and other payables	2,995,494	—	—	—
Total	7,973,407	838,410	1,726,543	1,603,072

	Target Group Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2008				
Borrowings	6,332,098	863,049	1,422,724	871,174
Derivative financial instrument	172,458	—	—	—
Obligations under finance leases	103,891	106,146	329,018	862,364
Trade, notes and other payables	3,238,504	—	—	—
Total	9,846,951	969,195	1,751,742	1,733,538
At 30 June 2009				
Borrowings	7,395,213	838,409	1,374,833	867,350
Derivative financial instrument	58,037	—	—	—
Obligations under finance leases	108,626	110,083	339,860	815,351
Trade, notes and other payables	3,084,709	—	—	—
Total	10,646,585	948,492	1,714,693	1,682,701

	Target Company Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2006				
Short term debentures	800,000	—	—	—
Borrowings	2,757,442	730,380	1,769,798	1,694,534
Trade, notes and other payables	1,476,890	—	—	—
Total	5,034,332	730,380	1,769,798	1,694,534
At 31 December 2007				
Short term debentures	800,000	—	—	—
Borrowings	3,737,875	783,820	1,530,218	1,221,386
Obligations under finance leases	54,784	54,590	164,089	381,686

Trade, notes and other payables	1,890,275	—	—	—
Total	6,482,934	838,410	1,694,307	1,603,072
At 31 December 2008				
Borrowings	5,965,126	832,518	1,422,724	871,174
Derivative financial instrument	172,458	—	—	—
Obligations under finance leases	103,891	106,146	329,018	862,364
Trade, notes and other payables	2,249,967	—	—	—
Total	8,491,442	938,664	1,751,742	1,733,538
At 30 June 2009				
Borrowings	7,005,883	838,409	1,340,604	867,350
Derivative financial instrument	58,037	—	—	—
Obligations under finance leases	108,626	110,083	339,860	815,351
Trade, notes and other payables	2,110,634	—	—	—
Total	9,283,180	948,492	1,680,464	1,682,701

(b) Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target 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 Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

The gearing ratios at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings	5,991,205	6,798,786	8,865,743	10,057,908
Less: Cash and cash equivalents	(621,960)	(944,174)	(1,055,936)	(1,951,542)
Net debt	5,369,245	5,854,612	7,809,807	8,106,366
Total equity	1,426,539	888,723	(307,740)	399,783
Total capital	6,795,784	6,743,335	7,502,067	8,506,149
Gearing ratio	0.79	0.87	1.04	0.95

(c) Fair value estimation of financial assets and liabilities

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Target Group is the current bid price; the quoted market price used for financial liabilities is the current asking price.

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

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

The carrying amounts of the Target Group and the Target Company's current financial assets (including trade and other receivables, amounts due from related companies, and cash equivalents) and short term financial liabilities (including trade payables and notes payable, amounts due to related companies, other payables and accrued expenses and short term borrowings) are assumed to approximate their fair values due to their short- term maturities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the Financial Information 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 Target 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

The Target Group tests whether property, plant and equipment have been impaired in accordance with the accounting policy stated in Note 2(l) to the Financial Information. An impairment loss is recognized for the amount by which the recoverable amount of property, plant and equipment being lower than its carrying value. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The calculation of value in use is based on cash flow projections approved by management in which various assumptions and estimations (including but not limited to ticket price, fuel price, load factor, aircraft daily utilisation and discount rate etc.) are involved. Different judgments and estimations could significantly affect the results of the calculation.

(b) Revenue recognition

The Target Group recognises passenger, cargo and mail revenues in accordance with the accounting policy stated in Note 2(e) to the Financial Information. Unused tickets are recognised in traffic revenues based on management's estimates. Management annually evaluates the balance in the SIAC and records any adjustments, which can be material, in the period the evaluation is completed.

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

(c) Frequent flyer programme

The Target Company operates a frequent flyer programme called ''Crane Club'' that provides travel awards to programme members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognised when the miles have been redeemed or have expired. The deferment of revenue is estimated based on historical trends of redemptions which are then used to project the expected utilisation of these benefits and the estimated fair value of the redeemable miles. Any remaining unutilised benefits are recognised as deferred revenue. Different judgments and estimates could significantly affect the estimated deferred revenue or impact the results of operations.

(d) Depreciation of components related to overhaul costs

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

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

Provision for the estimated costs of return condition checks of 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 of returning similar airframe and engine models, actual costs incurred and aircraft and engine status. Different judgments or estimates could significantly affect the estimated provision for costs of return condition checks.

(f) Post retirement benefits

The Target Group operates and maintains defined retirement benefit plans which provide certain retirees with various retirement subsidies. The cost of providing the benefits in the defined retirement benefit plans is actuarially determined and recognised over the eligible employees' service period by utilising various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(v) to the Financial Information. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate etc. 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 Target Group. Additional information regarding the retirement benefit plans is disclosed in Note 36 to the Financial Information.

(g)Taxation

The Target Group is subject to various taxes in different areas. Significant judgement is required in determining the provision for various tax charges. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred tax assets that need to be recognised, the Target Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Target 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 Target Group's ability to utilise the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense are made.

5. REVENUES

The Target Group is principally engaged in the operation of civil aviation (including the provision of passenger, cargo and mail delivery), other extended transportation services, export and import trading, tour operations and the provision of freight forwarding services.

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenues					
Traffic revenues					
— Passenger	6,301,485	7,467,893	8,400,729	4,057,528	3,714,386
— Cargo and mail	1,284,774	1,850,631	1,977,810	1,024,984	489,349
Revenue from tour operations	1,124,660	1,329,857	1,359,314	748,849	581,744

Revenue from export and import trading	864,655	976,116	726,413	359,026	265,779
Revenue form freight forwarding services	459,304	565,710	713,467	331,693	265,868
Others	54,796	170,911	285,139	214,798	157,070
	10,089,674	12,361,118	13,462,872	6,736,878	5,474,196
Less: Business tax (Note)	(247,625)	(316,261)	(308,780)	(176,299)	(146,176)
	9,842,049	12,044,857	13,154,092	6,560,579	5,328,020

Note: The Target Group's traffic revenues are generally subject to PRC business tax levied at rates of 3% or 5%, pursuant to PRC business tax rules and regulations.

6. OTHER INCOME AND OTHER GAINS/(LOSSES)

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other income					
— Government subsidies (Note (a))	3,968	45,377	81,637	42,407	314,875
Other gains/(losses)					
— Gains/(losses) on disposal of property, plant and equipment (Note (b))	20,223	(120,780)	14,877	123	(1,294)

Notes:

(a) The government subsidies represent subsidies granted by the local governments to the Target Group. The amount for the period ended 30 June 2009 mainly represents the refunds of civil aviation infrastructure levies paid and payable by the Target Group for the period from 1 July 2008 to 30 June 2009 pursuant to the relevant notice issued by Ministry of Finance and China Aviation Administration of China (''CAAC'').

(b) The losses on disposal of property, plant and equipment in 2007 represent the loss arising from the sales of certain passenger freighters which were leased back by the Target Group under operating leases.

7. SEGMENT INFORMATION

The Target Company's management reviews the Target Group's internal reporting in order to assess performance and allocate resources. The Target Company's management has determined the operating segments based on these reports.

Management considers the business from both of service/product and geographic perspectives. From a service/product perspective, management assesses the performance of the following segments: (1) passenger (including cargo carried by passenger flights); (2) cargo; (3) tour operation; (4) import and export trading; and (5) freight forwarding. Performances of the other businesses carried out by the less material subsidiaries of the Target Group are assessed together by management as ''all other segments''. In addition, management further evaluates the revenues by analyzing on a geographic basis (domestic, Hong Kong, United States, Japan and other countries).

The Target Company's management assesses the performance of the operating segments based on operating profit. Other information provided to the Target Company's management is measured in a manner consistent with that in the Financial Information.

Sales between segments are carried out at arm's length. The revenues from external parties reported to the Target Company's management are measured in a manner consistent with that in the consolidated statement of comprehensive income.

The segment results for the year ended 31 December 2006 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	7,028,316	579,029	—	—	—	—	7,607,345
Other revenues and operating income	52,489	13,613	1,119,234	866,721	558,898	217,703	2,828,658
Total segment revenues	7,080,805	592,642	1,119,234	866,721	558,898	217,703	10,436,003
Inter-segment revenues	(252,744)	(40,629)	—	(2,304)	(105,149)	(193,128)	(593,954)
Revenues	6,828,061	552,013	1,119,234	864,417	453,749	24,575	9,842,049
Operating profit/(loss)	106,680	(35,561)	18,822	17,506	29,231	6,033	142,711
Finance income							143,102
Finance costs							(273,895)
Share of results of associates							5,831
Share of results of jointly controlled entities							(1,629)
Profit before income tax							16,120
Income tax							(22,873)
Loss for the year							(6,753)

Other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2006 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	623,095	4,368	4,999	272	5,795	5,708	644,237
Amortisation	8,409	8	206	—	224	1,258	10,105

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Segment assets	10,070,563	358,912	301,144	114,997	129,057	289,216	11,263,889
Investments in associates	—	—	—	—	—	51,792	51,792
Investments in jointly controlled entities	—	—	—	—	—	14,165	14,165
Total assets	10,070,563	358,912	301,144	114,997	129,057	355,173	11,329,846
Segment liabilities	(9,035,493)	(324,883)	(216,847)	(84,362)	(76,471)	(165,251)	(9,903,307)
Capital expenditure (Notes 17, 18 and 19)	1,937,196	30,581	4,757	253	8,566	132,135	2,113,488

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

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	8,035,570	1,294,704	—	—	—	—	9,330,274
Other revenues and operating income	101,644	99,934	1,323,345	1,015,310	652,092	296,017	3,488,342
Total segment revenues	8,137,214	1,394,638	1,323,345	1,015,310	652,092	296,017	12,818,616
Inter-segment revenues	(305,715)	(130,917)	—	(39,474)	(93,764)	(203,889)	(773,759)

Revenues	7,831,499	1,263,721	1,323,345	975,836	558,328	92,128	12,044,857
Operating (loss)/ profit	(397,810)	(180,741)	18,880	31,015	28,943	25,552	(474,161)
Finance income							283,481
Finance costs							(374,964)
Share of results of associates							6,265
Share of results of jointly controlled entities							3,799
Loss before income tax							(555,580)
Income tax							(18,148)
Loss for the year							(573,728)

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

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	706,137	7,219	4,941	292	6,359	10,861	735,809
Amortisation	10,400	63	363	—	138	141	11,105

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

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Segment assets	11,324,382	699,962	393,529	149,999	159,853	336,255	13,063,980
Investments in associates	—	—	—	—	—	54,257	54,257
Investments in jointly controlled entities	—	—	—	—	—	17,124	17,124
Total assets	11,324,382	699,962	393,529	149,999	159,853	407,636	13,135,361
Segment liabilities	(10,750,137)	(773,223)	(297,766)	(115,355)	(79,602)	(230,555)	(12,246,638)
Capital expenditure (Notes 17, 18 and 19)	2,186,685	22,104	16,617	28	4,608	70,558	2,300,600

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

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	8,941,464	1,518,584	—	—	—	—	10,460,048
Other revenues and operating income	321,133	155,579	1,352,174	729,679	805,095	274,741	3,638,401
Total segment revenues	9,262,597	1,674,163	1,352,174	729,679	805,095	274,741	14,098,449
Inter-segment revenues	(569,577)	(108,766)	—	(3,513)	(100,360)	(162,141)	(944,357)
Revenues	8,693,020	1,565,397	1,352,174	726,166	704,735	112,600	13,154,092
Operating (loss)/ profit	(1,022,079)	(263,329)	4,675	31,508	32,730	16,572	(1,199,923)
Finance income							296,975
Finance costs							(396,834)
Share of results of associates							8,087
Share of results of jointly controlled entities							1,245
Loss before income tax							(1,290,450)
Income tax							(15,403)
Loss for the year							(1,305,853)

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

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	674,970	11,228	6,603	272	6,198	13,833	713,104
Amortisation	12,360	206	383	—	64	154	13,167

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

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Segment assets	12,851,466	645,219	338,826	104,310	173,658	306,219	14,419,698
Investments in associates	—	—	—	—	—	57,929	57,929
Investments in jointly controlled entities	—	—	—	—	—	18,369	18,369
Total assets	12,851,466	645,219	338,826	104,310	173,658	382,517	14,495,996
Segment liabilities	(13,442,256)	(749,652)	(244,735)	(68,812)	(78,375)	(219,906)	(14,803,736)
Capital expenditure (Notes 17, 18 and 19)	2,141,626	66,360	6,778	42	5,585	26,858	2,247,249

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

				(Unaudited)			
	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	4,284,458	776,549	—	—	—	—	5,061,007
Other revenues and operating income	231,654	73,383	745,148	358,853	379,765	139,972	1,928,775
Total segment revenue	4,516,112	849,932	745,148	358,853	379,765	139,972	6,989,782
Inter-segment revenue	(320,586)	—	—	—	(33,069)	(75,548)	(429,203)

Revenues	4,195,526	849,932	745,148	358,853	346,696	64,424	6,560,579
Operating (loss)/ profit	(48,096)	(162,004)	8,902	14,206	19,978	8,384	(158,630)
Finance income							298,064
Finance costs							(204,578)
Share of results of associates							5,007
Share of results of jointly controlled entities							440
Loss before income tax							(59,697)
Income tax							(8,787)
Loss for the period							(68,484)

Other segment items included in the consolidated statement of comprehensive income for the six months ended 30 June 2008 are as follows:

	(Unaudited)						
	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	333,761	4,475	2,926	144	3,128	6,726	351,160
Amortisation	6,017	88	115	—	41	75	6,336

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

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	3,960,807	323,176	—	—	—	—	4,283,983
Other revenues and operating income	103,483	68,547	578,200	267,033	297,330	130,868	1,445,461
Total segment revenue	4,064,290	391,723	578,200	267,033	297,330	130,868	5,729,444
Inter-segment revenue	(228,817)	(19,993)	(75)	(1,334)	(35,100)	(116,105)	(401,424)
Revenues	3,835,473	371,730	578,125	265,699	262,230	14,763	5,328,020
Operating profit/ (loss)	166,799	(266,633)	10,917	2,523	13,938	(10,446)	(82,902)
Finance income							11,851
Finance costs							(181,783)
Share of results of associates							4,447
Share of results of jointly controlled							

entities	2,943
Loss before income tax	(245,444)
Income tax	(20,811)
Loss for the period	(266,255)

Other segment items included in the consolidated statement of comprehensive income for the six months ended 30 June 2009 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	381,902	6,844	1,733	128	2,968	12,872	406,447
Amortisation	6,568	1,400	—	—	21	80	8,069

The segment assets and liabilities at 30 June 2009 and capital expenditure for the period then ended are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Segment assets	14,774,909	432,667	323,430	100,807	180,809	306,896	16,119,518
Investments in associates	—	—	—	—	—	55,085	55,085
Investments in jointly controlled entities	—	—	—	—	—	19,587	19,587
Total assets	14,774,909	432,667	323,430	100,807	180,809	381,568	16,194,190
Segment liabilities	(14,365,550)	(813,708)	(220,364)	(64,252)	(94,350)	(236,183)	(15,794,407)
Capital expenditure (Notes 17, 18 and 19)	949,621	20,805	—	—	1,086	1,539	973,051

Revenues (net of business tax) of the Target Group from passenger and cargo segments are further analyzed by management on geographical basis.

Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region (''Hong Kong'')) is classified as domestic operations. Traffic revenue from inbound and outbound services between the PRC, Hong Kong or overseas markets is attributed to the segments based on the origin and destination of each flight segment.

Revenue of other business segments are primarily generated from the activities conducted in the PRC.

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Domestic (the PRC, excluding Hong Kong)	8,132,402	9,439,307	10,068,467	4,998,359	4,421,752

Hong Kong	517,045	726,608	717,708	360,142	281,019
United States	237,770	497,266	753,026	383,434	162,464
Japan	181,636	255,285	444,383	223,589	177,734
Other countries	773,196	1,126,391	1,170,508	595,055	285,051
Total	9,842,049	12,044,857	13,154,092	6,560,579	5,328,020

The major revenue-earning assets of the Target Group are its aircraft and related equipment, all of which are registered in the PRC. Since the Target Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities on geographical basis. Other than the aircraft as described above, all assets of the Target Group are located in the PRC.

8. (LOSS)/GAIN ON FAIR VALUE MOVEMENTS OF FUEL OPTION CONTRACTS

In the year ended 31 December 2008, the Target Group entered into fuel option contracts to reduce the risk of changes in market oil/petroleum prices against aircraft fuel costs. The fuel option contracts used by the Target Group was structured to include a combination of both put and call options which allowed the Target Group to lock in fuel prices for specified volumes within a price range. In the contracts, the call option price at which the Target Group was effectively entitled to buy fuel would be higher than that at which the counterparty was effectively entitled to sell.

No fuel hedging contract was entered into by the Target Group for the six months ended 30 June 2009, all the opened fuel hedging contracts as at 30 June 2009 are contracts entered into by the Target Group in 2008. None of the fuel hedging contracts entered into by the Target Group qualified for hedge accounting, the realised and unrealised mark to market gains/(losses) of the fuel hedging contracts during a period are recognised in the profit and loss in the consolidated statement of comprehensive income.

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

9. WAGES, SALARIES AND BENEFITS

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Wages, salaries, bonus and allowances	627,925	829,390	996,890	464,009	560,157
Employee welfare and benefits	84,989	127,415	128,533	60,485	62,853
Post-retirement benefits (note 36)	32,716	29,677	27,398	9,584	16,010
Pension funds	88,645	117,246	138,880	60,500	72,215
Medical insurance	32,171	44,884	56,741	23,455	29,165
Staff housing fund	35,540	43,466	63,994	36,539	37,964
	901,986	1,192,078	1,412,436	654,572	778,364

(a) Emoluments of directors and supervisors

The aggregate amounts of emoluments payable to the Target Company's directors and supervisors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Salaries and allowance	1,379	1,461	1,449	577	604
Bonus	—	—	—	—	—
Total	1,379	1,461	1,449	577	604

* Certain directors of the Target Company received emoluments from the Target Company's shareholders, part of which were in respect of their services to the Target Company and its subsidiaries. No apportionment has been made as it is impracticable to apportion this amount between their services to the Target Group and their services to the Target Company's shareholders.

During the Relevant Periods, no directors and supervisors of the Target Company waived their emoluments.

(b) Five highest paid individuals

Two directors, whose emoluments are reflected in the above analysis were among the five highest paid individuals in the Target Group for the Relevant Periods. The emoluments payable to the remaining three highest paid individuals are as follows:

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries, bonus and allowances	1,243	1,372	1,441	787	924

The emoluments o the five highest paid individual fell within the following band:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(Unaudited)	
Below HK$1,000,000	5	5	5	5	5

During the Relevant Period, no emoluments were paid by the Target Group to its' directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Target Group, or as a compensation for loss of office.

10. OPERATING PROFIT/(LOSS)

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

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Crediting:					
Gain on disposals of property, plant and equipment	20,223	—	14,877	123	—
Charging:					

Amortisation of intangible assets	5,367	7,707	10,105	4,918	6,631
Depreciation of property, plant and equipment					
— leased	—	17,539	64,636	29,875	52,765
— owned	644,237	718,270	648,468	321,285	353,682
Amortisation of lease prepayments	4,738	3,398	3,062	1,418	1,438
Consumption of flight equipment spare parts	92,999	124,011	150,911	75,633	82,370
Provision for impairment of trade and other receivables	3,948	13,599	1,449	—	2,407
Auditor's remuneration	750	900	900	450	450
Loss on disposals of property, plant and equipment	—	120,780	—	—	1,294
Cost of inventories	832,324	963,734	681,483	337,131	258,001

11. FINANCE INCOME

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Exchange gains, net (Note)	135,888	272,440	280,705	291,806	3,793
Interest income	7,214	11,041	16,270	6,258	8,058
	143,102	283,481	296,975	298,064	11,851

Note: The exchange gains for the Relevant Periods primarily relate to the translation of the Target Group's foreign currency denominated borrowings and obligations under finance leases at exchange rates prevailing at each year/period end.

12. FINANCE COSTS

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on loans from banks	303,358	399,117	423,892	209,061	209,333
Interest relating to short term debentures (Note 30)	25,040	12,440	34,196	23,137	—
Interest relating to notes payable	9,977	24,921	32,496	16,248	12,485
Interest relating to obligations under finance leases	—	12,487			