

CHINA EASTERN AIRLINES CORP LTD  
Form 6-K  
March 29, 2010

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

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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 March 2010

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

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(Address of principal executive offices)

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

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

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

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

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

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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.

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THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

MAJOR TRANSACTION  
PURCHASE OF SIXTEEN AIRBUS A330 SERIES AIRCRAFT

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26 March 2010

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DEFINITIONS

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

“Agreement”	means the agreement entered into on 28 December 2009 by the Company with Airbus SAS regarding the purchase of the Aircraft;
“Airbus SAS”	means Airbus SAS, a company created and existing under the laws of France;
“Aircraft”	means sixteen brand new Airbus A330 series aircraft (with engines);
“ATKs”	means the tones of capacity available for the transportation of revenue load (passengers and/or cargo) multiplied by the kilometers flown;
“A Shares”	means the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in RMB and are listed on the Shanghai Stock Exchange;
“Board”	means the board of directors of the Company;
“CEA Group”	has the meaning as ascribed to it in Appendix I of this circular;
“CES Global”	means (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 17.09% of its issued share capital as at the Latest Practicable Date;
“CEA Holding”	means (China Eastern Air Holding Company), a wholly PRC State-owned enterprise and the controlling shareholder of the Company holding (directly or indirectly) approximately 59.94% of its issued share capital as at the Latest Practicable Date;
“Company”	means (China Eastern Airlines Corporation Limited), a joint stock company incorporated in the PRC with limited liability, whose H shares, A shares and American depositary shares are listed on the Stock Exchange, the Shanghai Stock Exchange and the New York Stock Exchange, Inc., respectively;
“Directors”	means the directors of the Company;

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DEFINITIONS

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“Group”	means the Company and its subsidiaries (including Shanghai Airlines);
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“H Shares”	means the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than RMB and are listed on the Stock Exchange;
“Latest Practicable Date”	means 24 March 2010, being the latest practicable date for ascertaining certain information included herein before the printing of this circular;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	means the People’s Republic of China;
“PwC”	means PricewaterhouseCoopers;
“RMB”	means renminbi, the lawful currency of the PRC;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Airlines”	means (Shanghai Airlines Co., Ltd) and its subsidiaries
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited; and
“USD”	means United States dollar, the lawful currency of the United States of America.

For illustration purpose only, translation of USD to RMB is made in this circular at the rate of USD1.00 to RMB6.83. No representation is made that any amount in RMB or USD could have been or could be converted at such rate or at any other rate or at all.

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LETTER FROM THE BOARD

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

Directors:

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

Legal address:

66 Airport Street  
Pudong International Airport  
Shanghai  
PRC

Independent non-executive Directors:

Wu Baiwang  
Xie Rong  
Sandy Ke-Yaw Liu  
Wu Xiaogen  
Ji Weidong

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

26 March 2010

To the shareholders of the Company

Dear Sir or Madam,

MAJOR TRANSACTION  
PURCHASE OF SIXTEEN AIRBUS A330 SERIES AIRCRAFT

1. INTRODUCTION

As disclosed in the announcement of the Company dated 28 December 2009, the Company has entered into the Agreement with Airbus SAS regarding the purchase of sixteen Airbus A330 series aircraft (with engines).





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LETTER FROM THE BOARD

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

2. THE PARTIES

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

Airbus SAS, to the knowledge of the Directors, is principally engaged in the business of manufacturing and selling aircraft.

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

3. THE AGREEMENT

On 28 December 2009, the Company entered into the Agreement with Airbus SAS regarding the purchase of sixteen Airbus A330 series aircraft (with engines).

Based on the information provided by Airbus SAS, the total asset value of the Aircraft, as determined by reference to the relevant catalogue price supplied by Airbus SAS, amounts in aggregate to approximately USD2.599 billion (approximately RMB17.749 billion).

Consideration

The aircraft basic price of the Aircraft in aggregate is approximately USD2.599 billion (RMB17.749 billion) based on the relevant price catalog in 2007. Such aircraft basic price comprises the airframe price (which is subject to price adjustment by applying a formula), optional features prices and engine price.

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

Based on such actual consideration under the Agreement, the relevant "percentage ratio" calculated under Rule 14.07 of the Listing Rules at the material time is above 25% but less than 100%, the Agreement constitutes a major transaction of the Company under the Listing Rules as applied by the Stock Exchange. In respect of the transaction, the Company understands its disclosure obligations normally required under Chapter 14 of the Listing Rules, and has therefore on separate occasions raised the issue with Airbus SAS in order to seek its consent to the Company's disclosing certain otherwise required information (including the relevant consideration involved) in the relevant announcements and circulars. Nonetheless, Airbus SAS, for business



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LETTER FROM THE BOARD

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reasons and from a commercial perspective, did not accede to the Company's request in this respect, and insisted preservation of the confidentiality carried with such information to the extent possible. The Company has made an application to the Stock Exchange for a waiver from strict compliance with the relevant provisions (including Listing Rules 14.58(4) and 14.66(4)) under the Listing Rules in respect of the disclosure of the actual consideration for the Aircraft.

The price concessions will mainly affect the depreciation of aircraft in the operation cost of the Company. The Company confirms that the extent of the price concessions granted to the Company under the Agreement is more favourable than the price concessions that the Company had obtained under its previous agreement entered into in October 2004 with Airbus SAS regarding the purchase of certain Airbus A330 series aircraft. The Company believes that there is no material impact of the price concessions obtained under the Agreement on the Company's operating costs taken as a whole.

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

#### Payment terms and source of funding

The consideration under the Agreement is payable by cash in United States dollars in instalments, and is, as currently contemplated, being funded through bank loans from commercial banks.

#### Delivery

The Aircraft are expected to be delivered to the Company in stages from 2011 to 2014.

#### Reasons for and benefits expected to accrue to the Company

The Aircraft will primarily be used to satisfy the demand arising from the growth of the market of long-and-medium-haul routes passenger air transportation for the coming years, and strengthen the Company's operational capabilities in the long-and-medium-haul routes passenger air transportation market. The transaction will optimize the overall fleet structure of the Company and enhance the construction of airline network. The transaction will also provide a more comfortable services to the passengers and increase the Company's overall competitiveness.

Without considering the adjustments to be made to the aircraft fleet of the Group as a result of the market conditions and the age of the aircraft, based on the ATKs of the Group as at 31 December 2008, the addition of the Aircraft will increase the ATKs of the Group by 15.22%.

The addition of the Aircraft is part of the whole plan of the Company to condense its aircraft models and optimize its fleet structure. At the same time of the introducing of the Aircraft, the Company will phase out some old models of its existing aircraft step by step according to the hub network strategy of the Company and the then market demand.

The transaction has been approved by the Board, and is subject to approval by the relevant regulatory authority(ies) in the PRC in compliance with the relevant regulatory requirements.



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LETTER FROM THE BOARD

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

Financial impact of the transaction

As mentioned above, the consideration is, as currently contemplated, being funded through bank loans from commercial banks. The transaction may therefore result in an increase in the Company's debt-to-equity ratio, but as the consideration under the Agreement is payable by instalments, it is not expected to have substantial impact on the Company's cash-flow position or its business operations and the purchase of the Aircraft will not add immediate financial burden to the Company. The transaction is not expected to result in any material impact on the earnings, assets and liabilities of the Group.

4. IMPLICATIONS UNDER THE LISTING RULES

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

CEA Holding, which (directly or indirectly) holds approximately 59.94% of the issued share capital of the Company at the Latest Practicable Date, does not have any interest or benefit under the Agreement. No shareholder (including CEA Holding) would be required to abstain from voting at any shareholders' general meeting, if convened, to approve the Agreement.

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

5. ADDITIONAL INFORMATION

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

By order of the Board

CHINA EASTERN AIRLINES CORPORATION LIMITED  
Luo Zhuping  
Director and Company Secretary

## APPENDIX I

## FINANCIAL INFORMATION OF CEA GROUP

In the Appendices I and II to this circular, the term “CEA Group” refers to the Company and its subsidiaries before acquisition of Shanghai Airlines.

## A. SUMMARY OF FINANCIAL INFORMATION

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

## Results

Expressed in RMB millions

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

## Financial Position

Expressed in RMB millions

	As at 31 December			30 June	
	2006 (Restated)	2007 (Restated)	2008	2008 (Unaudited)	2009 (Unaudited)
Total assets	60,739	67,741	73,052	72,840	
Total liabilities	58,052	64,809	85,691	77,410	

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	2,687	2,933	(12,639)	(4,570)
Minority interests	649	572	458	501
Capital and reserves attributable to equity holders of the Company	2,038	2,361	(13,097)	(5,071)
	2,687	2,933	(12,639)	(4,570)

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## APPENDIX I

## FINANCIAL INFORMATION OF CEA GROUP

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

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

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

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

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



Profit/(loss) for the period	1,027,859	(151,704)
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APPENDIX I FINANCIAL INFORMATION OF CEA GROUP

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

## APPENDIX I FINANCIAL INFORMATION OF CEA GROUP

Condensed Consolidated Balance Sheet  
As at 30 June 2009

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



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APPENDIX I FINANCIAL INFORMATION OF CEA GROUP

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

## APPENDIX I

## FINANCIAL INFORMATION OF CEA GROUP

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

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

## APPENDIX I FINANCIAL INFORMATION OF CEA GROUP

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

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

Notes to the Condensed Consolidated Interim Financial Information

1. Corporate Information

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

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

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

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2009 (the “Current Period”) has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with IFRS.

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

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

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

With the additional credit facilities and proposed new share issue described in the preceding paragraph, and based on history of obtaining necessary financing and its relationships with its bankers and creditors, the Board considers that the Group will be able to obtain sufficient financing to enable it to operate and meet its liabilities as and when they fall due. Accordingly, it is appropriate that the financial information be prepared on a going concern basis and do not



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

3. Accounting policies

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

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

(a) Standards, amendment and interpretations effective in 2009

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

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

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

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

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

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

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

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

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(b)

Comparatives

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

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

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

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

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

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

Impact on  
consolidated balance  
sheet at 1 January  
2008

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

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

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## (ii) Other reclassification

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

## 4. Revenues and segment information

## (a) Revenues

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

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

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

## (b) Segment information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Other income and other gains

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

Note:

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

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

6. Gain on fair value movements of fuel option contracts

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

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

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

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

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

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

## 9. Income tax

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

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

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

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

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except for those incorporated in Hong Kong and being subject to the Hong Kong corporate income tax rate of 16.5% (2008 : 16.5%), are generally subject to the PRC standard corporate tax rate of 25% (2008 : 25%) under the New CIT Law.

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

## 10. Earnings/(loss) per share

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

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

## 11. Dividend

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

## 12. Profit appropriation

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

## 13. Property, plant and equipment

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

Carrying amounts at 30 June 2009	48,428,733	4,922,495	53,351,228
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	(Unaudited)		
	Six months ended 30 June 2008		
	Aircraft, engines and flight equipment RMB'000	Others RMB'000	Total RMB'000
Restated			
Carrying amounts at 1 January 2008	42,758,022	4,511,732	47,269,754
Transfers			
from advanced payments on acquisition of aircraft (Note 14)	883,151	—	883,151
Other additions	1,702,237	295,368	1,997,605
Depreciation charged for the period	(1,977,548)	(248,847)	(2,226,395)
Disposals	(78,920)	(31,636)	(110,556)
Carrying amounts at 30 June 2008	43,286,942	4,526,617	47,813,559

## 14. Advanced payments on acquisition of aircraft

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

## 15. Trade receivables

The credit terms given to trade customers are determined on an individual basis, with credit periods generally ranging from half a month to two months.

The aging analysis of trade receivables is as follows:

	(Unaudited)	(Audited)
	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 90 days	1,233,809	1,088,951

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

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## 16. Trade payables and notes payable

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

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

## 17. Obligations under finance leases

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

## 18. Borrowings

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

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

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

## Notes:

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

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

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

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

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## 20. Commitments

## (a) Capital commitments

The Group had the following capital commitments:

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

## (b) Operating lease commitments

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

	(Unaudited) 30 June 2009		(Audited) 31 December 2008	
	Aircraft, engines and flight equipment RMB'000	Land and buildings RMB'000	Aircraft, engines and flight equipment RMB'000	Land and buildings RMB'000
Within one year	2,430,019	255,483	2,671,355	202,540
In the second year	1,933,677	143,537	2,330,080	124,643
In the third to fifth year inclusive	4,100,844	337,770	4,598,624	325,423
After the fifth year	3,576,329	2,462,209	4,100,560	2,398,361
	12,040,869	3,198,999	13,700,619	3,050,967

## 21. Related party transactions

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

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

(a) Related party transactions

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

## 22. Seasonality

The civil aviation industry is subject to seasonal fluctuations, with peak demand during the holiday season in the second half of the year. As such, the revenues and results of the Group in the first half of the year are generally lower than those in the second half of the year.

## 23. Contingent liabilities

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

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

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## FINANCIAL INFORMATION OF CEA GROUP

## 24. Post balance sheet events

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

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

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

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

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

## (c) Additional credit facilities

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

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

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

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

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

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

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

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## FINANCIAL INFORMATION OF CEA GROUP

## Consolidated Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)

As at 31 December 2008

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

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

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## FINANCIAL INFORMATION OF CEA GROUP

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

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## FINANCIAL INFORMATION OF CEA GROUP

## Company's Balance Sheet

(Prepared in accordance with International Financial Reporting Standards)

As at 31 December 2008

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

Total assets less current liabilities	16,204,347	26,875,648
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## FINANCIAL INFORMATION OF CEA GROUP

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

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## FINANCIAL INFORMATION OF CEA GROUP

## Consolidated Cash Flow Statement

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2008

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





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## FINANCIAL INFORMATION OF CEA GROUP

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

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

Dividend paid to minority interests in subsidiaries	—	—	—	—	(46,400)	(46,400)
Disposal of a subsidiary	—	—	—	—	(5,987)	(5,987)
Adjustment to statutory and discretionary reserves	—	(428,808)	428,808	—	—	—
	—	(428,808)	428,808	—	(52,387)	(52,387)
Balance at 31 December 2007	4,866,950	307,351	(2,813,730)	2,360,571	571,985	2,932,556
Balance at 1 January 2008, as previously presented	4,866,950	798,039	(2,637,226)	3,027,763	584,966	3,612,729
Effect of early adoption of IFRIC 13 (Note 2(b)(i))	—	—	(345,115)	(345,115)	—	(345,115)
Effect of change of accounting policy on property, plant and equipment (Note 2(b)(ii))	—	(490,688)	168,611	(322,077)	(12,981)	(335,058)
Balance at 1 January 2008, as restated	4,866,950	307,351	(2,813,730)	2,360,571	571,985	2,932,556
Cash flow hedges, net of tax	—	(170,360)	—	(170,360)	—	(170,360)
Fair value movements of available for sale investments held by associates (Note 23)	—	(19,080)	—	(19,080)	—	(19,080)
Net loss recognised directly in equity	—	(189,440)	—	(189,440)	—	(189,440)
Loss for the year	—	—	(15,268,532)	(15,268,532)	(61,393)	(15,329,925)
Total recognised income and expense for 2008	—	(189,440)	(15,268,532)	(15,457,972)	(61,393)	(15,519,365)

Dividend paid to minority interests in subsidiaries	—	—	—	—	(52,700)	(52,700)
	—	—	—	—	(52,700)	(52,700)
Balance at 31 December 2008	4,866,950	117,911	(18,082,262)	(13,097,401)	457,892	(12,639,509)

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APPENDIX I

FINANCIAL INFORMATION OF CEA GROUP

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Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2008

1. CORPORATE INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

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

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

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

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## FINANCIAL INFORMATION OF CEA GROUP

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

## (i) Standards, amendment and interpretations effective in 2008

- IFRIC 14, 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.
- IFRIC 11, 'IFRS 2 — Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

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

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

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.
- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management.

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



former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply IAS 27 (Revised) from 1 January 2010.

- IFRS 3 (Revised) ‘Business Combinations’ (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are ‘capable of being conducted’ rather than ‘are conducted and managed’. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets. All acquisition related cost should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.
- IAS 36 (Amendment), ‘Impairment of assets’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.
- IAS 38 (Amendment), ‘Intangible assets’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group’s financial statements.
- IAS 19 (Amendment), ‘Employee benefits’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, ‘Provisions, contingent liabilities and contingent assets’, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent. The Group will apply the IAS 19 (Amendment) from 1 January 2009. The expected impact is still being assessed in detail by management.
- IFRS 7 (Amendment), ‘Financial instruments: Disclosure’ (effective from 1 January 2009). The amendment forms part of the IASB’s response to the financial crisis aims at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement

disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will apply the IFRS 7 (Amendment) and provide the required disclosure, where applicable, prospectively from 1 January 2009.

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## (b) Changes of accounting policy

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

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

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

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

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

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

- the alignment of the Group's accounting policy with industry peers — management considers that the historical cost model will improve comparability of certain financial performance data and results of operations of the Group with other airlines. Very few of the leading global airlines currently use the valuation model and valuation data is not generally used in airline industry analysis that is made available to stakeholders or internally by management.
- increased comparability between finance and operating leased aircraft — depreciation cost of a finance leased aircraft is based on revalued amount whereas operating lease payments are based on cost and aircraft held under operating leases are not recognised as assets subject to valuation. Management therefore consider that the change to the cost model increases the level of consistency in accounting for aircraft which are not distinguished from an operational perspective.
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the high degree of subjectivity and risk of cyclical volatility associated with external valuation and second hand aircraft fair values — the market value of second hand aircraft can be volatile and is influenced by transactions in global markets that may have little relevance to the operating environment in China. When purchasing or financing aircraft under finance leases, management intend to use these aircraft in the business for the remainder of their useful lives. Management do not believe that financial statements that reflect, often subjective, movements in second hand values provide meaningful information to investors.

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

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

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

## (c) Consolidation

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

## (i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

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

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

(ii) Transactions with minority interests

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

(iii) Associates

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

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

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

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

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

(iv) Jointly controlled entities

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

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

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

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

## (d) Segmental reporting

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

## (e) Foreign currency translation

## (i) Functional and presentation currency

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

## (ii) Transactions and balances

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

## (f) Revenue recognition and sales in advance of carriage

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

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

(i) Traffic revenues

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

(ii) Commission income

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

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(iii)

## Other revenue

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

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

(g)

## Government grants

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

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

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

(h)

## Maintenance and overhaul costs

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

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

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

(i)

## Interest income

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

(j)

## Borrowing costs

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

(k)

Current and deferred tax

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

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

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

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

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

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

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

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

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives of 5 to 6 years. Costs associated with developing or maintaining computer software programmes are recognised as expense when incurred.

(m)

Property, plant and equipment

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

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

When each major aircraft overhaul is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment and is depreciated over the appropriate maintenance cycles. Components related to airframe overhaul cost, are depreciated on a straight-line basis over 5 to 7.5 years. Components related to

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engine overhaul costs, are depreciated between each overhaul period using the ratio of actual flying hours and estimated flying hours between overhauls. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognised and charged to the income statement.

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

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

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

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

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

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

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

(o) Lease prepayments

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

(p) Advanced payments on acquisition of aircraft

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

(q)

Flight equipment spare parts

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

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## (r) Trade receivables

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

## (s) Cash and cash equivalents

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

## (t) Borrowings

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

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

## (u) Provisions

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

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

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

## (v) Leases

## (i) A Group company is the lessee

Finance leases

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

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost

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is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets are depreciated using a straight-line basis over their expected useful lives to residual values.

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

#### Operating leases

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

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

(ii) A Group company is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term.

(w) Retirement benefits

The Group participates in defined contribution retirement schemes regarding pension and medical benefits for employees organised by the municipal governments of the relevant provinces. The contributions to the schemes are charged to the income statement as and when incurred.

In addition, the Group provides retirees with post-retirement benefits including retirement subsidies, transportation subsidies, social function activity subsidies as well as other welfare. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives.

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

(x)

Derivative financial instruments

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

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The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments and any unrealised gains or losses, being changes in fair value of the derivatives, are recognised in the income statement immediately.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Derivative financial instruments that qualify for hedge accounting and which are designated as a specific hedge of the variability in cashflows of a highly probable forecast transaction, are accounted for as follows:

- (i) the effective portion of any change in fair value of the derivative financial instrument is recognised directly in equity. Where the forecast transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are included in the initial measurement of the cost of the asset or liability. Otherwise, the cumulative gain or loss on the derivative financial instrument is removed from equity and recognised in the income statement in the same period during which the hedged forecast transaction affects net profit or loss.
- (ii) the ineffective portion of any change in fair value is recognised in the income statement immediately.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged items is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the committed or forecast transaction ultimately occurs. When a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(y)

Available-for-sale financial assets

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

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

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## (z) Dividend distribution

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

## (aa) Comparatives

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

## 3. FINANCIAL RISK MANAGEMENT

## (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and fuel price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

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

## (i) Foreign currency risk

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

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

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





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

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

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

Net balance sheet exposure	(28,148,073)	7,563	(5,700)	(28,349,967)	(73,490)	(557,620)
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The following table indicates the approximate change in the Group's and the Company's profit and loss and other components of consolidated equity in response to a 5% appreciation of the RMB against the following major currencies at the balance sheet date.

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

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	2008		Company		2007	
	Effect on profit and loss RMB'000	Effect on other components of equity RMB'000	Effect on profit and loss RMB'000	Effect on other components of equity RMB'000		
US dollars	1,374,321	34,364	1,426,618	1,228		
Euro	(378)	—	3,675	—		
Japanese Yen	285	—	27,881	—		

(ii)

Interest rate risk

The Group's interest-rate risk primarily arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. During 2008 and 2007, the Group's borrowings at variable rates were primarily denominated in US dollars. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in Notes 32 and 38(a) to the financial statements.

To hedge against the variability in the cash flows arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates. The Group also entered certain interest rate swaps to swap fixed assets into variable rates.

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

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Floating rate instruments				
Borrowings	(12,171,844)	(9,734,862)	(11,898,923)	(9,477,525)
Obligation under finance leases	(20,482,615)	(14,570,519)	(18,213,044)	(11,992,404)
Interest rate swaps at notional amount	2,165,429	3,342,023	2,165,429	3,342,023
	(30,489,030)	(20,963,358)	(27,946,538)	(18,127,906)

  

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000

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

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

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

(iii)

Fuel price risk

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

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

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

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

(iv)

Credit risk

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

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

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

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

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

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

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

(v)

Liquidity risk

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

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

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

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

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

	Group			
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
<b>At 31 December 2008</b>				
Borrowings	27,785,310	4,515,962	3,969,413	846,074
Derivative financial instruments	6,456,075	15,448	19,416	150,660
Obligations under finance leases	2,765,969	2,704,499	7,805,669	11,868,053
Trade and other payables	16,561,603	—	320,354	410,076
<b>Total</b>	<b>53,568,957</b>	<b>7,235,909</b>	<b>12,114,852</b>	<b>13,274,863</b>
<b>At 31 December 2007</b>				
Borrowings	18,494,521	5,927,098	4,216,517	1,225,692
Derivative financial instruments	20,238	441	5,120	15,997
Obligations under finance leases	2,545,223	1,567,253	4,205,352	8,134,382
Trade and other payables	12,075,177	—	339,064	314,884
<b>Total</b>	<b>33,135,159</b>	<b>7,494,792</b>	<b>8,766,053</b>	<b>9,690,955</b>

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



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

(b)

## Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

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

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

(c) Fair value estimation of financial assets and liabilities

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

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

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



## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

## (b) Revenue recognition

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

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

## (c) Frequent flyer programme

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

## (d) Depreciation of components related to overhaul costs

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

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

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

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(f)

## Retirement benefits

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognised over the employees' service period by utilising various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(w) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is disclosed in Note 36 to the financial statements.

(g)

## Deferred income tax

In assessing the amount of deferred tax assets that need to be recognised in accordance with the accounting policy stated in Note 2(k) to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

## 5.

## REVENUES

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

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

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

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## FINANCIAL INFORMATION OF CEA GROUP

## 6. OTHER OPERATING INCOME AND OTHER GAINS

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

Note:

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

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

## 7. SEGMENT INFORMATION

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

## (a) Primary reporting format by business segment

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Secondary reporting format by geographical segment

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

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

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

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

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

#### 8. (LOSS)/GAIN ON FINANCIAL DERIVATIVES

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

#### 9. WAGES, SALARIES AND BENEFITS

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

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

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## (a) Emoluments of directors, supervisors and senior management

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

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

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## FINANCIAL INFORMATION OF CEA GROUP

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

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

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

## (b) Five highest paid individuals

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

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



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

The emoluments fell within the following band:

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

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

## 10. IMPAIRMENT LOSSES

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

Note:

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

## 11. OPERATING (LOSS)/PROFIT

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

		Group	
		2008	2007
	Note	RMB'000	RMB'000
<b>Crediting:</b>			
Gain on disposals of property, plant and equipment	6	267,084	—
<b>Charging:</b>			

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Amortisation of intangible assets	18	110,151	106,703
Depreciation of property, plant and equipment			
— leased	19	1,913,877	1,868,481
— owned	19	2,626,652	2,719,704
Amortisation of lease prepayments	20	25,940	24,847
Consumption of flight equipment spare parts		476,282	468,888
Provision for impairment of trade and other receivables		34,760	10,481
Auditors' remuneration		18,000	18,439

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## 12.FINANCE INCOME

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

Note:

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

## 13.

## FINANCE COSTS

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

## 14.INCOME TAX

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

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

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

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

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## FINANCIAL INFORMATION OF CEA GROUP

to the Company and the Pudong Subsidiaries is 18%. Other subsidiaries of the Company, except for those incorporated in Hong Kong and being subject to the Hong Kong corporate income tax rate of 16.5%, are generally subject to the PRC standard corporate tax rate of 25% under the New CIT Law.

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

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

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

## 15.

## DIVIDEND

No dividend was paid during both 2008 and 2007.

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

## 16.

## (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

## 17.

## (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of RMB15,269 million (2007 : a profit of RMB379 million) and the weighted average number of shares of 4,866,950,000 (2007 : 4,866,950,000) in issue during the year.

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

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## 18. INTANGIBLE ASSETS

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



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

Notes:

(a)

Impairment tests for goodwill

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

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

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

Key assumptions used for cash flow projections are as following:

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

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

(b)

## Sponsorship fees

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

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## 19. PROPERTY, PLANT AND EQUIPMENT

## Group

Aircraft, engines and  
flight equipment

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

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

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

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

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

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## APPENDIX I

## FINANCIAL INFORMATION OF CEA GROUP

	Company						Total RMB'000
	Aircraft, engines and flight equipment		Buildings RMB'000	Other property, plant and construction equipment in progress		RMB'000	
	Owned RMB'000	Held under finance leases RMB'000		RMB'000	RMB'000		
<b>Cost</b>							
At 1 January 2007, as restated	22,709,498	18,475,510	1,503,144	2,212,408	155,533	45,056,093	
Reclassification upon a purchase	3,909,982	(3,909,982)	—	—	—	—	
Transfers from construction in progress	—	—	82,588	13,388	(95,976)	—	
Transfers from advanced payments on acquisition of aircraft (Note 21)	114,941	4,177,685	—	—	—	4,292,626	
Other additions	1,070,095	5,149,747	1,437	289,425	146,394	6,657,098	
Disposal to a jointly controlled entity (Note 24)	—	—	(28,489)	(2,773)	—	(31,262)	
Other disposals	(597,936)	(233,007)	(19,376)	(78,872)	—	(929,191)	
Transfers to assets held for sale	(2,870)	—	—	—	—	(2,870)	