

CHINA EASTERN AIRLINES CORP LTD
Form 6-K
September 15, 2010

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

FORM 6-K

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

For the month of September 2010

Commission File Number: 001-14550

China Eastern Airlines Corporation Limited

(Translation of Registrant's name into English)

Board Secretariat's Office
Kong Gang San Lu, Number 88
Shanghai, China 200335

(Address of principal executive offices)

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

SIGNATURES

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

China Eastern Airlines Corporation Limited
(Registrant)

Date September 15, 2010

By /s/ Luo Zhuping

Name: Luo Zhuping

Title: Director and Company Secretary

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

The board of directors (the “Board”) of China Eastern Airlines Corporation Limited (the “Company”) hereby presents the unaudited interim consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2010 (which were approved by the Board and the audit and risk management committee of the Company (the “Audit and Risk Management Committee”) on 27 August 2010), with comparative figures for the corresponding financial period in 2009.

The interim report of the Group for the six months ended 30 June 2010 is unaudited and does not necessarily indicate the annual or future results of the Group.

INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Prepared in accordance with International Financial Reporting Standards ("IFRS")

For the six months ended 30 June 2010

| | Note | (Unaudited) | |
|---|------|--------------------------|--------------|
| | | Six months ended 30 June | |
| | | 2010 | 2009 |
| | | RMB'000 | RMB'000 |
| Revenues | 4 | 33,127,332 | 17,130,451 |
| Other operating income | 6 | 317,421 | 1,112,871 |
| Operating expenses | | | |
| Aircraft fuel | | (10,019,390) | (5,121,130) |
| Gain on fair value movements of financial derivatives | 7 | 224,526 | 2,793,718 |
| Take-off and landing charges | | (3,401,308) | (2,673,337) |
| Depreciation and amortisation | | (3,217,244) | (2,529,044) |
| Wages, salaries and benefits | | (3,504,886) | (2,270,011) |
| Aircraft maintenance | | (1,993,048) | (1,209,545) |
| Food and beverages | | (700,759) | (612,623) |
| Aircraft operating lease rentals | | (1,916,562) | (1,267,175) |
| Other operating lease rentals | | (258,104) | (191,595) |
| Selling and marketing expenses | | (1,591,849) | (859,817) |
| Civil aviation infrastructure levies | | (613,885) | (426,846) |
| Ground services and other charges | | (181,924) | (130,777) |
| Transportation, accommodation and meals | | (548,478) | – |
| Cost of inventories | | (342,915) | – |
| Office, administrative and other expenses | | (2,838,263) | (1,718,508) |
| Total operating expenses | | (30,904,089) | (16,216,690) |
| Operating profit | | 2,540,664 | 2,026,632 |
| Share of results of associates | | 7,755 | (37,397) |
| Share of results of jointly controlled entities | | 13,716 | 8,170 |
| Finance income | 8 | 190,936 | 145,937 |
| Finance costs | 9 | (781,776) | (1,130,929) |
| Profit before income tax | | 1,971,295 | 1,012,413 |
| Income tax | 10 | (45,889) | 15,446 |
| Profit for the period | | 1,925,406 | 1,027,859 |

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| | | (Unaudited) | |
|--|------|--------------------------|------------------|
| | | Six months ended 30 June | |
| | Note | 2010 RMB'000 | 2009 RMB'000 |
| Other comprehensive (loss)/income for the period | | | |
| Cash flow hedges, net of tax | | (61,826) | 55,857 |
| Fair value movements of available for sale investments | | (1,607) | 788 |
| Total comprehensive income for the period | | 1,861,973 | 1,084,504 |
| Profit attributable to: | | | |
| Equity holders of the Company | | 1,760,561 | 984,654 |
| Non-controlling interests | | 164,845 | 43,205 |
| | | 1,925,406 | 1,027,859 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 1,697,128 | 1,041,299 |
| Non-controlling interests | | 164,845 | 43,205 |
| | | 1,861,973 | 1,084,504 |
| Earnings per share for profit attributable to the equity holders of the Company during the period | | | |
| – Basic and diluted (RMB) | 11 | 0.16 | 0.20 |

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CONDENSED CONSOLIDATED BALANCE SHEET

Prepared in accordance with IFRS

As at 30 June 2010

| | Note | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|--|------|---|---|
| Non-current assets | | | |
| Intangible assets | 14 | 9,079,645 | 69,622 |
| Property, plant and equipment | 15 | 68,046,550 | 56,703,560 |
| Lease prepayments | | 1,424,412 | 970,835 |
| Advanced payments on acquisition of aircraft | 16 | 6,521,051 | 5,081,174 |
| Investments in associates | | 784,204 | 723,022 |
| Investments in jointly controlled entities | | 391,732 | 372,793 |
| Available-for-sale financial assets | | 237,542 | 57,269 |
| Other long-term assets | | 1,443,987 | 926,312 |
| Deferred tax assets | | 88,178 | 83,748 |
| | | 88,017,301 | 64,988,335 |
| Current assets | | | |
| Flight equipment spare parts | | 1,289,344 | 932,260 |
| Trade receivables | 17 | 2,773,190 | 1,370,871 |
| Prepayments, deposits and other receivables | | 5,369,670 | 2,370,495 |
| Cash and cash equivalents | | 4,460,765 | 1,735,248 |
| Derivative assets | | 1,553 | 3,490 |
| Non-current assets held for sale | | 163,997 | 450,693 |
| | | 14,058,519 | 6,863,057 |
| Current liabilities | | | |
| Sales in advance of carriage | | 2,422,865 | 1,420,183 |
| Trade payables and notes payable | 18 | 7,375,837 | 6,480,459 |
| Other payables and accrued expenses | | 13,945,608 | 11,517,204 |
| Current portion of obligations under finance leases | 19 | 2,169,927 | 2,125,430 |
| Current portion of borrowings | 20 | 18,773,619 | 12,330,075 |
| Income tax payable | | 43,425 | 21,126 |
| Current portion of provision for return condition checks for aircraft and engines under operating leases | | 338,777 | 609,884 |
| Derivative liabilities | | 745,588 | 1,006,286 |
| | | 45,815,646 | 35,510,647 |
| Net current liabilities | | (31,757,127) | (28,647,590) |
| Total assets less current liabilities | | 56,260,174 | 36,340,745 |

| | Note | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|--|------|---|---|
| Non-current liabilities | | | |
| Obligations under finance leases | 19 | 17,109,097 | 17,244,805 |
| Borrowings | 20 | 21,794,834 | 13,004,874 |
| Provision for return condition checks for aircraft and engines under operating leases | | 2,274,620 | 1,237,871 |
| Other long-term liabilities | | 1,677,012 | 1,203,423 |
| Post-retirement benefit obligations | | 2,384,765 | 1,798,707 |
| Deferred tax liabilities | | 52,413 | 51,539 |
| Derivative liabilities | | 181,563 | 123,345 |
| | | 45,474,304 | 34,664,564 |
| Net assets | | 10,785,870 | 1,676,181 |
| Equity | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| – Share capital | 21 | 11,276,539 | 9,581,700 |
| – Reserves | | (1,497,709) | (8,347,147) |
| | | 9,778,830 | 1,234,553 |
| Non-controlling interests | | 1,007,040 | 441,628 |
| Total equity | | 10,785,870 | 1,676,181 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Prepared in accordance with IFRS

For the six months ended 30 June 2010

| | (Unaudited) | |
|---|--------------------------|-------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Net cash inflow/(outflow) from operating activities | 4,821,423 | (563,422) |
| Net cash outflow from investing activities | (4,700,899) | (1,840,210) |
| Net cash inflow from financing activities | 2,626,040 | 2,746,009 |
| Net increase in cash and cash equivalents | 2,746,564 | 342,377 |
| Cash and cash equivalents at 1 January | 1,735,248 | 3,451,010 |
| Exchange adjustments | (21,047) | 3,576 |
| Cash and cash equivalents at 30 June | 4,460,765 | 3,796,963 |

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Prepared in accordance with IFRS

For the six months ended 30 June 2010

| | Attributable to equity holders of the Company | | | | Non-controlling interests | RMB'000 |
|--|---|-------------------|---------------------|--------------------|---------------------------|--------------------|
| | Share capital | Other reserves | Accumulated losses | Subtotal | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Six months ended 30 June 2010 (Unaudited) | | | | | | |
| Balance at 1 January 2010 | 9,581,700 | 9,566,349 | (17,913,496) | 1,234,553 | 441,628 | 1,676,181 |
| Comprehensive income for the period ended 30 June 2010 | – | (63,433) | 1,760,561 | 1,697,128 | 164,845 | 1,861,973 |
| Issue of new shares for the acquisition of Shanghai Airlines Co., Ltd. (“Shanghai Airlines”) (Note 21) | 1,694,839 | 5,152,310 | – | 6,847,149 | – | 6,847,149 |
| Non-controlling interests addition | | | | | | |
| Share of the acquisition of Shanghai Airlines | – | – | – | – | 53,920 | 53,920 |
| Dividends paid to non-controlling interests in subsidiaries | – | – | – | – | (5,413) | (5,413) |
| Share contribution by investor | – | – | – | – | 352,060 | 352,060 |
| Balance at 30 June 2010 | 11,276,539 | 14,655,226 | (16,152,935) | 9,778,830 | 1,007,040 | 10,785,870 |
| 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 | (12,645,810) |
| Comprehensive income for the period ended 30 June 2009 | – | 56,645 | 984,654 | 1,041,299 | 43,205 | 1,085,154 |
| Issue of new shares | 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 | (4,561,871) |

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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 the Company’s registered office is 66 Airport Street, Pudong International Airport, Shanghai, the PRC. The Company and its subsidiaries (together, the “Group”) are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, and mail delivery and other extended transportation services, export and import trading, tour operations and provision of freight forwarding 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.

During the period ended 30 June 2010, the Company issued 1,694,838,860 A Shares of the Company to the shareholders of Shanghai Airlines in exchange for all issued shares of Shanghai Airlines. Upon completion of the issuance, Shanghai Airlines became a wholly owned subsidiary of the Company (details refer to Note 22).

This condensed consolidated interim financial information was approved for issue by the Company’s Board on 27 August 2010.

This condensed consolidated interim financial information has not been audited.

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2. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 (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 2009, which have been prepared in accordance with IFRS.

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

As at 30 June 2010, the Group’s accumulated losses were approximately RMB16.15 billion; its current liabilities exceeded its current assets by approximately RMB31.76 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 2010, the Group had total available credit facilities of RMB46.5 billion from certain banks. The Board believes that, based on experience to date, it is likely that these facilities will be rolled over in future years if required.

With the credit facilities and based on the Group’s history of obtaining finance and its relationships with its bankers and creditors, the Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements. Accordingly, the Board believes that it is appropriate to prepare these financial information on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies

Except as described in note 3(a) below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in these annual financial statements.

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

(a) New standards, amendments and interpretations to existing standards which are effective for accounting periods beginning on or after 1 January 2010 and adopted by the Group.

The Group has adopted the following new standards and amendments to existing standards which are relevant for the Group's existed business and mandatory for the first time for the financial year beginning 1 January 2010.

- IFRS 3 (revised), "Business combinations", and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

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3. Accounting policies (cont'd)

(a) (cont'd)

As the Group has adopted IFRS 3 (revised), it is required to adopt IAS 27 (revised), “consolidated and separate financial statements”, at the same time. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) also requires that total comprehensive income is attributed to the owners of the parent and to the non-controlling interest (“NCI”) even if this results in the NCI having a deficit balance. The standard requires prospective application of the amendment.

Amendment to IAS 38 “Intangible Assets” clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

The improvement related to IAS 17 “Leases” in the second improvement project to IFRSs issued by the IASB in April 2009 (“Second Improvement Project”) deleted the specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. This improvement is effective for accounting periods beginning or after 1 January 2010 but has no impact on the classifications of leases of lands of the Group and all payments for lands are regarded as operating lease prepayments.

IFRS 5 (amendment), “Measurement of non-current assets (or disposal groups) classified as held for sale”. The amendment is part of the IASB’s annual improvements project published in April/May 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies (cont'd)

(a) (cont'd)

IAS 39 (amendment), “Eligible hedge items”. The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt. Inflation is not separately identifiable and reliably measurable as a risk or a portion of a financial instrument, unless it is a contractually specified portion of the cash flows of a recognised inflation-linked bond whose other cash flows are unaffected by the inflation portion. It prohibits including time value in a one-sided hedged risk when designating options as hedges. An entity may only designate the change in the intrinsic value of an option as the hedging instrument of a one-sided risk arising from a forecast transaction in a hedging relationship. A one-sided risk is that changes in cash flows or fair value of a hedged item is above or below a specified price or other variable.

The following new standards, amendments and interpretations to existing standards are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Group.

| | |
|---------------------------|--|
| IAS 1 (Amendment) | Presentation of Financial Statements |
| IFRS 1 (Revised) | First-time Adoption of IFRSs |
| IFRS 1 (Amendment) | First-time Adoption of IFRSs – Additional Exemptions for First-time Adopters |
| IFRS 2 (Amendment) | Share-based payments – Group Cash-settled Share-based Payment Transaction |
| IFRIC -Int 17 (Amendment) | Distributions of Non-cash Assets to Owners |

3. Accounting policies (cont'd)

(b) Standards, amendments and interpretations to existing standards that are not yet effective for the financial year beginning 1 January 2010

The IASB has also issued certain new/revised standards, amendments or interpretations to existing standards (collectively the “New or Revised IFRSs”), and published certain improvements to IFRSs in May 2010 (the “Third Improvement Project”). The New or Revised IFRSs and amendments under the Third Improvement Project are not yet effective for the financial year beginning 1 January 2010.

The Group has not early adopted the New or Revised IFRSs and amendments under the Third Improvement Project in the unaudited condensed consolidated interim financial information and will adopt the New or Revised IFRSs and amendments under the Third Improvement Project in accordance with their respective effective dates. The Group is assessing the impact of the New or Revised IFRSs and amendments under the Third Improvement Project but is not yet in a position to state whether any substantial changes to the Group’s significant accounting policies and presentation of the financial statements will be resulted.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Revenues

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

| | (Unaudited) | |
|--|--------------------------|------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Revenues | | |
| – Passenger | 25,937,847 | 14,638,529 |
| – Cargo and mail | 4,210,377 | 1,532,008 |
| Revenue from tour operations | 834,540 | – |
| Ground service income | 597,406 | 500,614 |
| Revenue from freight forwarding services | 403,173 | – |
| Revenue from export and import trading | 354,387 | – |
| Cargo handling income | 208,480 | 135,932 |
| Commission income | 172,166 | 87,171 |
| Others | 408,956 | 236,197 |
| | 33,127,332 | 17,130,451 |

Note:

Pursuant to the relevant tax rules and regulations in the PRC, the major elements of the Group's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to business tax levied at rates of 3% or 5%. The business tax incurred and set off against the above Group's revenues for the period ended 30 June 2010 amounted to RMB661 million (2009: RMB439 million).

Pursuant to the notice of exemption of business tax on the provision of international transportation services (Cai Shui [2010] No. 8) jointly issued by Ministry of Finance and the State Administration of Taxation, entities within PRC providing international transportation services are exempt from business tax from 1 January 2010.

5. Segment information

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

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

Other services including export and import trading, tour operation, freight forwarding services, aviation training, air catering and other miscellaneous services are not included within the reportable operating segment, as they are not included in the internal report provided to the CODM. The results of these operation are included in the "other segments" column.

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

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the "PRC Accounting Standards"), which differ from IFRS in certain aspects. As such, the amount of each material reconciling items from the Group's reportable segment revenue, profit before income tax, assets and liabilities arising from different accounting policies are set out in Note 5(c) below.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (cont'd)

(a) (cont'd)

The segment results for the six months ended 30 June 2010 are as follows:

| | (Unaudited) | | | | |
|--|----------------------------------|------------------------------|------------------------|-------------------------|------------------|
| | Airline operations RMB'000 | Other segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
| Reportable segment revenue | | | | | |
| from external customers | 31,885,898 | 1,750,275 | – | – | 33,636,173 |
| Inter-segment sales | 210,752 | 208,018 | (418,770) | – | – |
| Reportable segment revenue | 32,096,650 | 1,958,293 | (418,770) | – | 33,636,173 |
| Reportable segment profit before income tax | 2,105,186 | 36,825 | – | 25,626 | 2,167,637 |
| Other segment information | | | | | |
| Depreciation and amortisation | 3,283,165 | 46,409 | – | – | 3,329,574 |
| Impairment losses | 76,552 | 373 | – | – | 76,925 |
| Capital expenditure | 6,486,975 | 34,970 | – | – | 6,521,945 |

5. Segment information (cont'd)

(a) (cont'd)

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

| | (Unaudited) | | | | |
|--|----------------------------------|------------------------------|------------------------|-------------------------|------------------|
| | Airline operations RMB'000 | Other segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
| Reportable segment revenue from external customers | 17,457,241 | 40,543 | – | – | 17,497,784 |
| Inter-segment sales | – | 74,677 | (74,677) | – | – |
| Reportable segment revenue | 17,457,241 | 115,220 | (74,677) | – | 17,497,784 |
| Reportable segment profit before income tax | 1,236,592 | 11,814 | – | (29,227) | 1,219,179 |
| Other segment information | | | | | |
| Depreciation and amortisation | 2,568,786 | 25,808 | – | – | 2,594,594 |
| Impairment losses | 45,715 | – | – | – | 45,715 |
| Capital expenditure | 2,415,524 | 4,950 | – | – | 2,420,474 |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (cont'd)

(a) (cont'd)

The segment assets and liabilities as at 30 June 2010 and 31 December 2009 are as follows:

| | Airline operations RMB'000 | Other segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
|--------------------------------|----------------------------------|------------------------------|------------------------|-------------------------|------------------|
| At 30 June 2010 | | | | | |
| (Unaudited) | | | | | |
| Reportable segment assets | 98,250,832 | 2,380,144 | (291,662) | 1,413,478 | 101,752,792 |
| Reportable segment liabilities | 87,823,886 | 1,397,455 | (291,662) | – | 88,929,679 |
| At 31 December 2009 | | | | | |
| Reportable segment assets | 69,850,127 | 1,153,130 | (137,660) | 1,153,084 | 72,018,681 |
| Reportable segment liabilities | 68,068,474 | 474,739 | (137,660) | – | 68,405,553 |

*Unallocated assets primarily represent investments in associates and jointly controlled entities, and available-for-sale financial assets. Unallocated results primarily represent the share of results of associates and jointly controlled entities.

(b)The Group's business segments operate in three main geographical areas, even though they are managed on a worldwide basis.

The Group's revenues by geographical segment are analysed based on the following criteria:

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

5. Segment information (cont'd)

(b) (cont'd)

(2) Revenue from ticket handling services, airport ground services, export and import trading, tour operations, the provision of freight forwarding services and other miscellaneous services are classified on the basis of where the services are performed.

| | (Unaudited) | |
|---|--------------------------|-------------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Domestic (the PRC, excluding Hong Kong, Macau and Taiwan) | 22,891,501 | 12,074,009 |
| Regional (Hong Kong, Macau and Taiwan) | 1,782,299 | 926,060 |
| International | 8,962,373 | 4,497,715 |
| Total | 33,636,173 | 17,497,784 |

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (cont'd)

(c) Reconciliation of reportable segment revenue, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements.

| | (Unaudited) | |
|---|--------------------------|-------------------|
| | Six months ended 30 June | |
| Note | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Revenue | | |
| Reportable segment revenue | 33,636,173 | 17,497,784 |
| – Reclassification of business tax and expired sales in advance of carriage (i) | (508,841) | (367,333) |
| Consolidated revenue | 33,127,332 | 17,130,451 |
| Profit before income tax | | |
| Reportable segment profit | 2,167,637 | 1,219,179 |
| – Difference in depreciation and impairment charges for aircraft, engines and flight equipment (ii) | (29,592) | (31,496) |
| – Provision for post-retirement benefits (iii) | (170,317) | (179,480) |
| – Others | 3,567 | 4,210 |
| Consolidated profit before income tax | 1,971,295 | 1,012,413 |

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5. Segment information (cont'd)

(c) Reconciliation of reportable segment revenue, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements. (cont'd)

| | Note | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|--|------|---|---|
| Assets | | | |
| Reportable segment assets | | 101,752,792 | 72,018,681 |
| – Difference in depreciation and impairment charges for aircraft, engines and flight equipment | (ii) | 137,677 | 167,912 |
| – Reversal of revaluation surplus relating to land use rights | (iv) | (356,416) | (360,626) |
| – Difference in goodwill arising from the acquisition of Shanghai Airlines | (v) | 513,062 | – |
| – Others | | 28,705 | 25,425 |
| Consolidated total assets | | 102,075,820 | 71,851,392 |

| | Note | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|--|-------|---|---|
| Liabilities | | | |
| Reportable segment liabilities | | 88,929,679 | 68,405,553 |
| – Provision for post-retirement benefits | (iii) | 2,439,664 | 1,849,933 |
| – Others | | (79,393) | (80,275) |
| Consolidated total liabilities | | 91,289,950 | 70,175,211 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (cont'd)

(c) Reconciliation of reportable segment revenue, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statements. (cont'd)

Notes:

- (i) The difference represents the different classification of business tax and expired sales in advance of carriage under PRC Accounting Standards and IFRS.
- (ii) The difference is attributable to the differences in the useful lives and residual values of aircraft, engines and rotatable adopted for depreciation purpose in prior years under PRC Accounting Standards and IFRS. Despite the depreciation policies of these assets have been unified under IFRS and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which results in the differences in the carrying amounts and related depreciation charges under IFRS and PRC Accounting Standards.
- (iii) In accordance with the PRC Accounting Standards, employees' post-retirement benefits are recognised upon payment. Under IFRS, such post-retirement benefits under defined benefit schemes are required to be recognised over the employees' service period.
- (iv) Under the PRC Accounting standards, land use rights injected by parent company as capital contribution upon restructuring for listing are stated at valuation less accumulated amortisation. Under IFRS, land use rights are recorded as prepaid operating leases at historical cost which was nil at the time of listing.
- (v) The basis of recognising the value of post-retirement benefits under defined benefit schemes (as described in Note 5(c)(iii) above) in relation to the acquisition of Shanghai Airlines was different under PRC Accounting Standards and IFRS. Accordingly the amounts of net liabilities acquired and goodwill were different.

6. Other operating income

| | (Unaudited) | |
|---|--------------------------|-----------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Refund of civil aviation infrastructure levies (Note (a)) | – | 830,622 |
| Other government subsidies (Note (b)) | 317,421 | 282,249 |
| | 317,421 | 1,112,871 |

Note:

- (a) Pursuant to Cai Jian (2009) No.4 issued by Ministry of Finance and Civil Aviation Administration of China in 2009, the civil aviation infrastructure levies collected from PRC domestic airlines for the period from 1 July 2008 to 30 June 2009 will be refunded. The amount for the six months ended 30 June 2009 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 governments to the Group; and (ii) other subsidies granted by various local municipalities to encourage the Group to operate certain routes to cities where these municipalities are located.

7. Gain on fair value movements of financial derivatives

| | (Unaudited) | |
|---|--------------------------|-----------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Gain arising from fair value movements of financial derivatives | | |
| – Crude oil option contracts (Note (a)) | 224,368 | 2,773,365 |
| – Other derivatives | 158 | 20,353 |
| | 224,526 | 2,793,718 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. Gain on fair value movements of financial derivatives (cont'd)

Note:

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

The Group did not enter into crude oil option contracts in the Current Period. All existing crude oil option contracts as at 30 June 2010 were entered into by the Group prior to 31 December 2008. None of the crude oil option contracts entered into by the Group qualified for hedge accounting, the realised and unrealised mark to market gains/(losses) of the crude oil option contracts during the Current Period were recognised in the consolidated income statement.

Realised and unrealised gains and losses arising from the valuation of these contracts have been dealt with in the consolidated income statements.

| | (Unaudited) | |
|---------------------------------|--------------------------|-------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Realised losses | (55,847) | (1,288,987) |
| Unrealised mark to market gains | 280,215 | 4,062,352 |
| | 224,368 | 2,773,365 |

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

8. Finance income

| | (Unaudited) | |
|----------------------------|--------------------------|---------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Exchange gains, net (Note) | 155,664 | 93,000 |
| Interest income | 35,272 | 52,937 |
| | 190,936 | 145,937 |

Note: The exchange gains for the six months ended 30 June 2010 and 2009 primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases at period-end exchange rates.

9. Finance costs

| | (Unaudited) | |
|---|--------------------------|-----------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Interest relating to obligations under finance leases | 164,871 | 323,062 |
| Interest on loans from banks and financial institutions | 613,610 | 873,073 |
| Interest relating to notes payable | 85,499 | 57,131 |
| | 863,980 | 1,253,266 |
| Less: amounts capitalised into advanced payments on acquisition of aircraft (Note 16) | (79,788) | (122,337) |
| amounts capitalised into construction in progress | (2,416) | - |
| | 781,776 | 1,130,929 |

The average interest rate used for interest capitalisation is 3.05% per annum for the six months ended 30 June 2010 (2009: 4.58%).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. Income tax

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

| | (Unaudited) | |
|------------------------------|--------------------------|----------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Provision for PRC income tax | 49,809 | 29,532 |
| Deferred taxation | (3,920) | (44,978) |
| | 45,889 | (15,446) |

Prior to 2008, the Company and certain of its subsidiaries (the "Pudong Subsidiaries") located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong District, Shanghai. Under the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") which was approved by the National People's Congress on 16 March 2007 and became effective from 1 January 2008, the Company and the Pudong Subsidiaries are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to 25% over the next five years from 2008. For the year ending 31 December 2010, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries is expected to be 22% (2009: 20%). Other subsidiaries of the Company, except for those incorporated in Hong Kong and subject to the Hong Kong corporate income tax rate of 16.5%, are generally subject to the PRC standard corporate tax rate of 25% (2009: 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 2010, as there are double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

11. Earnings per share

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to equity holders of the Company of RMB1,761 million (2009: earnings of RMB985 million) and the weighted average number of shares of 11,020,893,000 (2009: 4,954,304,000) in issue during the six months ended 30 June 2010.

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

12. Dividend

The Board has not recommended any interim dividend for the six months ended 30 June 2010 (2009: Nil).

13. Profit appropriation

No appropriation to the statutory reserves has been made during the six months ended 30 June 2010. Such appropriations will be made at year end in accordance with the PRC regulations and the Articles of Association of individual group companies.

14. Intangible assets

| | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|-------------------------|---|---|
| Goodwill (Note 22) | 9,022,092 | – |
| Other intangible assets | 57,553 | 69,622 |
| | 9,079,645 | 69,622 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. Property, plant and equipment

| | (Unaudited) | | |
|---|--|-------------------|------------------|
| | Six months ended 30 June 2010 | | |
| | Aircraft, engines and flight equipment RMB'000 | Others RMB'000 | Total RMB'000 |
| Carrying amounts at 1 January 2010 | 51,729,129 | 4,974,431 | 56,703,560 |
| Additions through the acquisition of Shanghai Airlines (Note 22) | 6,398,471 | 2,121,231 | 8,519,702 |
| Transfers from advanced payments on acquisition of aircraft (Note 16) | 2,017,588 | – | 2,017,588 |
| Other additions | 3,524,277 | 459,725 | 3,984,002 |
| Depreciation charged for the period | (2,828,892) | (341,057) | (3,169,949) |
| Disposals | – | (8,353) | (8,353) |
| Carrying amounts at 30 June 2010 | 60,840,573 | 7,205,977 | 68,046,550 |

| | (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 16) | 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 |

16. Advanced payments on acquisition of aircraft

| | (Unaudited) 30 June 2010 RMB'000 | (Unaudited) 30 June 2009 RMB'000 |
|--|---|---|
| At beginning of period | 5,081,174 | 6,413,554 |
| Additions through the acquisition of Shanghai Airlines (Note 22) | 1,072,367 | – |
| Other additions | 2,305,310 | 141,046 |
| Interest capitalised (Note 9) | 79,788 | 122,337 |
| Transfers to property, plant and equipment (Note 15) | (2,017,588) | (1,009,795) |
| At end of period | 6,521,051 | 5,667,142 |

17. 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) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|---|---|---|
| Within 90 days | 2,676,858 | 1,299,761 |
| 91 to 180 days | 45,913 | 37,427 |
| 181 to 365 days | 18,538 | 9,297 |
| Over 365 days | 263,457 | 246,202 |
| | 3,004,766 | 1,592,687 |
| Less: provision for impairment of receivables | (231,576) | (221,816) |
| Trade receivables | 2,773,190 | 1,370,871 |

Balances with related companies included in trade receivables are summarised in Note 24(b)(i).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18. Trade payables and notes payable

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

| | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|-----------------|---|---|
| Within 90 days | 3,690,938 | 5,161,027 |
| 91 to 180 days | 2,634,343 | 772,255 |
| 181 to 365 days | 624,969 | 157,856 |
| Over 365 days | 425,587 | 389,321 |
| | 7,375,837 | 6,480,459 |

As at 30 June 2010, the trade payables and notes payable balances of the Group included amounts due to related companies of RMB796 million (2009: RMB1,013 million) (Note 24 (b)(ii)).

As at 30 June 2010, notes payable amounted to RMB4,193 million (2009: RMB4,970 million) in total, which mainly were unsecured. Part of notes payable's effective interests rates ranged from 1.9% to 4.4% (2009: 1.6% to 5.9%) and all notes are repayable within six months.

19. Obligations under finance leases

| | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|--|---|---|
| Within one year | 2,169,927 | 2,125,430 |
| In the second year | 2,208,300 | 2,093,629 |
| In the third to fifth year inclusive | 6,965,174 | 6,784,901 |
| After the fifth year | 7,935,623 | 8,366,275 |
| Total | 19,279,024 | 19,370,235 |
| Less: amount repayable within one year | (2,169,927) | (2,125,430) |
| Long-term portion | 17,109,097 | 17,244,805 |

| 20. | Borrowings | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|--|------------|---|---|
| Non-current | | | |
| Long-term bank borrowings | | | |
| – Secured | | 12,155,155 | 7,566,853 |
| – Unsecured | | 9,639,679 | 5,438,021 |
| | | 21,794,834 | 13,004,874 |
| Current | | | |
| Current portion of long-term bank borrowings | | | |
| – Secured | | 1,910,495 | 1,221,829 |
| – Unsecured | | 2,010,852 | 2,701,640 |
| Short-term bank borrowings | | | |
| – Secured | | 1,358,180 | – |
| – Unsecured | | 13,494,092 | 8,406,606 |
| | | 18,773,619 | 12,330,075 |
| | | 40,568,453 | 25,334,949 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

| 21. | Share capital | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
|---|---|---|---|
| Registered, issued and fully paid of RMB1.00 each | | | |
| A shares listed on The Shanghai Stock Exchange (“A Shares”) | | | |
| | | 7,782,214 | 6,087,375 |
| | – Tradable shares held by CEA Holding with trading moratorium | 4,831,375 | 4,831,375 |
| | – Tradable shares held by other investors with trading moratorium | (a) 1,148,889 | 860,000 |
| | – Tradable shares without trading moratorium | (a) 1,801,950 | 396,000 |
| H shares listed on The Stock Exchange of Hong Kong Limited (“H Shares”) | | | |
| | – Tradable shares held by CES Global with trading moratorium | 1,437,375 | 1,437,375 |
| | – Tradable shares without trading moratorium | 2,056,950 | 2,056,950 |
| | | 11,276,539 | 9,581,700 |

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

(a) As approved by the Company’s shareholders meeting and China Securities Regulatory Commission, the Company issued 1,694,838,860 A Shares of the Company to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines on 28 January 2010. The fair value of the A Shares issued amounted to about RMB6.9 billion, of which RMB1.7 billion is recorded as share capital and the remaining RMB5.2 billion is recorded as share premium.

22.

Business combinations

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

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

The aggregate acquisition price paid by the Company is RMB6,871 million which is determined based on the quoted market price of the Company’s shares issued as of the Acquisition Date with adjustments to reflect restrictions specific to certain shares and other factors.

The resulting goodwill is preliminarily determined to be RMB9,022 million and is attributable to strengthening the competitiveness of the Company, attaining synergy through integration of the resources and promoting the evolution of Shanghai international air transportation centre.

Details of the purchase consideration, the net liabilities acquired and goodwill are as provisionally determined follows:

| | RMB’000 |
|---|-----------|
| Purchase consideration – fair value of share issued | 6,870,830 |
| Add: fair value of net liabilities acquired | 2,151,262 |
| Goodwill (Note 14) | 9,022,092 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22. Business combinations (cont'd)

The fair value of identifiable assets and liabilities (the “Acquired Assets and Liabilities”) of Shanghai Airlines as at the Acquisition Date were estimated by the Board through a valuation conducted by an independent valuer. The carrying amount and fair value of the Acquired Assets and Liabilities are as follows:

| | Carrying Amount RMB'000 | Fair Value RMB'000 |
|--|-------------------------------|-----------------------|
| Assets | | |
| Non-current assets | | |
| Intangible assets | 21,352 | 21,352 |
| Property, plant and equipment | 10,245,231 | 8,519,702 |
| Lease prepayments | 115,804 | 466,558 |
| Advances payments on acquisition of aircraft | 1,072,367 | 1,072,367 |
| Investment in an associates | 59,714 | 59,714 |
| Investment in jointly controlled entities | 19,184 | 19,184 |
| Available -for -sale financial assets | 181,780 | 181,780 |
| Other long term assets | 526,659 | 526,659 |
| Deferred tax assets | 510 | 510 |
| | 12,242,601 | 10,867,826 |
| Current assets | | |
| Flight equipment spare parts | 333,043 | 333,043 |
| Trade receivables | 698,362 | 698,362 |
| Prepayments, deposits and other receivables | 1,427,436 | 1,427,436 |
| Cash and cash equivalents | 1,167,565 | 1,167,565 |
| | 3,626,406 | 3,626,406 |
| Total assets | 15,869,007 | 14,494,232 |

| 22. | Business combinations (cont'd) | Carrying Amount RMB'000 | Fair Value RMB'000 |
|---|--------------------------------|-------------------------------|-----------------------|
| Liabilities | | | |
| Current liabilities | | | |
| Sales in advance of carriage | | (311,170) | (311,170) |
| Trade payables and notes payable | | (1,383,575) | (1,383,575) |
| Other payables and accrued expenses | | (2,503,812) | (2,503,812) |
| Current portion of obligations under finance leases | | (73,691) | (73,691) |
| Current portion of borrowings | | (5,711,604) | (5,711,604) |
| Income tax payable | | (16,433) | (16,433) |
| Current portion of provision for return condition checks for aircraft under operating leases | | (46,378) | (46,378) |
| Derivative liabilities | | (18,004) | (18,004) |
| | | (10,064,667) | (10,064,667) |
| Non-current liabilities | | | |
| Obligations under finance leases | | (1,010,646) | (1,010,646) |
| Borrowings | | (4,209,955) | (4,209,955) |
| Provision for return condition checks for aircraft under operating leases | | (639,556) | (639,556) |
| Other long-term liabilities | | (248,218) | (248,218) |
| Deferred tax liabilities | | (1,163) | (1,163) |
| Post-retirement benefit obligations | | (417,369) | (417,369) |
| | | (6,526,907) | (6,526,907) |
| Total liabilities | | (16,591,574) | (16,591,574) |
| Net liabilities | | (722,567) | (2,097,342) |
| Non-controlling interests | | (53,920) | (53,920) |
| Net liabilities acquired | | (776,487) | (2,151,262) |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23. Commitments

| | (a) Capital commitments | |
|--|---|---|
| | (Unaudited) 30 June 2010 RMB'000 | (Audited) 31 December 2009 RMB'000 |
| The Group had the following capital commitments: | | |
| Authorised and contracted for: | | |
| – Aircraft, engines and flight equipment | 76,552,057 | 74,161,006 |
| – Other property, plant and equipment | 1,551,384 | 544,490 |
| | 78,103,441 | 74,705,496 |
| Authorised but not contracted for: | | |
| – Aircraft, engines and flight equipment | 3,055,905 | – |
| – Other property, plant and equipment | 2,576,163 | 3,856,033 |
| | 5,632,068 | 3,856,033 |
| | 83,735,509 | 78,561,529 |

(b) Operating lease commitments

As at the balance sheet date, the Group had commitments under operating leases to pay future minimum lease rentals as follows:

| | (Unaudited) 30 June 2010 | | (Audited) 31 December 2009 | |
|---|--|----------------------------------|--|----------------------------------|
| | 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 | 3,769,101 | 295,852 | 2,404,916 | 153,453 |
| In the second year | 3,347,402 | 185,517 | 1,901,941 | 124,160 |
| In the third to fifth year inclusive | 8,372,417 | 538,097 | 4,468,013 | 335,059 |
| After the fifth year | 8,448,353 | 3,710,005 | 3,398,064 | 2,404,003 |
| | 23,937,273 | 4,729,471 | 12,172,934 | 3,016,675 |

24.

Related party transactions

The Group is controlled by CEA Holding, which owns approximately 59.93% (2009: 70.54%) of the Company's shares in total as at 30 June 2010, including 17.09% (2009: 20.12%) of the Company's shares owned through its wholly owned subsidiary incorporated in Hong Kong, CES Global Holding (Hong Kong) Limited.

| (a) | | Related party transactions | |
|--|---|------------------------------|-----------|
| | | (Unaudited) | |
| | | Income/(expense or payments) | |
| | | Six months ended 30 June | |
| | | 2010 | 2009 |
| Nature of transactions | Related party | RMB'000 | RMB'000 |
| With CEA Holding or companies directly or indirectly held by CEA Holding: | | | |
| Interest income on deposits at an average rate of 0.36% (2009: 0.36%) per annum | Eastern Air Group Finance Co., Ltd ("EAGF") | 5,784 | 11,282 |
| Interest expense on loans at rate of 4.39% (2009: 5.01%) per annum | EAGF | (25,966) | (18,337) |
| Interest expense on loans at rate of 5.14% (2009: 4.54%) per annum | CEA Holding | (2,373) | (105,997) |
| Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold | Kunming Dongmei Aviation Travel Co., Ltd | (3,140) | (3,088) |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. Related party transactions (cont'd)

| (a) | Related party transactions (cont'd) | (Unaudited) | |
|---|--|------------------------------|----------|
| | | Income/(expense or payments) | |
| Nature of transactions | Related party | Six months ended 30 June | |
| | | 2010 | 2009 |
| | | RMB'000 | RMB'000 |
| Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold | Shanghai Dongmei Aviation Travel Co., Ltd (“SDATC”) | (1,455) | (1,980) |
| | Xian Dongmei Aviation Travel Co., Ltd | (647) | (481) |
| | Shanghai Tourism (HK) Co., Ltd | – | (52) |
| Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and flight equipment | Eastern Aviation Import & Export Co., Ltd (“EAIEC”) | (26,989) | (21,256) |
| Repairs and maintenance expense for aircraft and engines | Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd. | (29,542) | (29,808) |
| | Shanghai Technologies Aerospace Co., Ltd. | (82,455) | (59,808) |
| | Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd. | (302,916) | – |

| | | (Unaudited) | |
|------------------------------|---|------------------------------|-----------|
| | | Income/(expense or payments) | |
| | | Six months ended 30 June | |
| | | 2010 | 2009 |
| Nature of transactions | Related party | RMB'000 | RMB'000 |
| Supply of food and beverages | Shanghai Eastern Air Catering Co., Ltd | (140,444) | (115,534) |
| | Xian Eastern Air Catering Investment Co., Ltd. | (22,735) | (18,529) |
| | Yunnan Eastern Air Catering Investment Co., Ltd. | (19,113) | (8,246) |
| | Qingdao Eastern Air Catering Investment Co., Ltd. | (6,641) | (12,287) |
| | Wuxi Eastern Air Catering and Beverage Investment Co., Ltd. | (12,755) | (13,333) |
| | Wuhan Eastern Air Catering Investment Co., Ltd. | (7,373) | (7,472) |
| | Ningbo Eastern Air Catering Investment Co., Ltd. | (2,611) | (963) |
| | Jiangxi Eastern Air Catering Investment Co., Ltd. | (6,169) | (6,734) |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. Related party transactions (cont'd)

| Nature of transactions | Related party | (Unaudited) | |
|------------------------------|---|------------------------------|---------|
| | | Income/(expense or payments) | |
| | | Six months ended 30 June | |
| | | 2010 | 2009 |
| | | RMB'000 | RMB'000 |
| Supply of food and beverages | Anhui Eastern Air Catering Investment Co., Ltd. | (5,906) | (5,068) |
| | Shanxi Eastern Air Catering Investment Co., Ltd. | (6,042) | (5,159) |
| | Gansu Eastern Air Catering Investment Co., Ltd. | (5,777) | (4,442) |
| | Qilu Eastern Air Catering Investment Co., Ltd. | (2,999) | (3,968) |
| | Heibei Eastern Air Catering Investment Co., Ltd. | (2,921) | (825) |
| | Shanghai Meixin Eastern Air Catering Investment Co., Ltd. | (854) | (2,005) |
| | Yantai Eastern Air Catering Investment Co., Ltd. | (348) | (2,691) |
| | Wuxi Eastern Air Catering Investment Co., Ltd. | (2,976) | (1,966) |

24.

Related party transactions (cont'd)

(a) Related party transactions (cont'd)

| Nature of transactions | Related party | (Unaudited) | |
|----------------------------|---|------------------------------|----------|
| | | Income/(expense or payments) | |
| | | Six months ended 30 June | |
| | | 2010 | 2009 |
| | | RMB'000 | RMB'000 |
| Advertising expense | Eastern Aviation Advertising Services Co., Ltd. | (6,732) | (638) |
| Automobile maintenance fee | CEA Development Co., Ltd. | (17,054) | (13,556) |
| Equipment maintenance fee | Shanghai Eastern Aviation Equipment Manufacturing Corporation | (2,259) | (4,320) |
| | Shanghai Hute Aviation Technology Co., Ltd | (13,458) | — |
| Land and building rental | CEA Holding | (27,570) | (27,570) |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. Related party transactions (cont'd)

| (b) (i) | Balances with related parties (cont'd) Amounts due from related companies | (Unaudited) | (Audited) |
|--|--|----------------------------|-----------------------------------|
| | | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Nature | Company | | |
| Trade receivables | Kunming Dongmei Aviation Travel Co., Ltd. | 10,255 | 13,177 |
| | Shanghai Eastern Aviation International Travel and Transportation Co., Ltd | 11,012 | 11,012 |
| | SDATC | 5,532 | 3,164 |
| | Others | 13,635 | 13,234 |
| | | 40,434 | 40,587 |
| Prepayments, deposits and other receivables | EAIEC | 74,035 | 52,016 |
| | Eastern China Kaiya System Integration | 10,635 | 4,613 |
| | Others | 14,984 | 4,768 |
| | | 99,654 | 61,397 |

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

24.

Related party transactions (cont'd)

(b) Balances with related parties (cont'd)
(ii) Amounts due to related companies

| Nature | Company | (Unaudited) | (Audited) |
|-------------------------------------|--|----------------------------|--------------------------------|
| | | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Trade payables and notes payable | EAIEC | 722,168 | 907,817 |
| | Shanghai Eastern Air Catering Co., Ltd. | 52,861 | 94,275 |
| | Others | 20,574 | 11,051 |
| | | 795,603 | 1,013,143 |
| Other payables and accrued expenses | CEA Holding | 137,051 | 122,257 |
| | CEA Northwest Company | 8,000 | 8,000 |
| | Others | 22,153 | 6,002 |
| | | 167,204 | 136,259 |

Except for the amounts due to CEA Holding, which are reimbursement in nature, all other amounts due to related companies are trade in nature. Except for the notes payable to EAIEC and Shanghai Eastern Air Catering Co., Ltd. which are with discount rates ranging from 2.45% to 3.70% (2009: 1.74% to 2.70%) and repayable within six months, all other amounts due to related companies are interest free and payable within normal credit terms given by trade creditors.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. Related party transactions (cont'd)

(iii) (b) Balances with related parties (cont'd)
Short-term deposits and borrowings with an associate and CEA Holding

| | Average interest rate | | (Unaudited) | (Audited) |
|---|-----------------------|------------------------|----------------------------|-----------------------------------|
| | 30 June 2010 | 31 December 2009 | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Short-term deposits (included in Prepayments, Deposits and Other Receivables) in EAGF | 0.36% | 0.36% | 1,179,132 | 465,238 |
| Short-term loans (included in Borrowings) from EAGF | 4.22% | 4.40% | 2,073,120 | 595,110 |
| Long-term loans (included in Borrowings) from EAGF | 4.99% | 4.67% | 337,909 | 230,000 |
| Long-term loans (included in Borrowings) from CEA Holding | 5.14% | 4.67% | 32,000 | 162,000 |

(c) Guarantees by holding company

As at 30 June 2010, bank loans of the Company's subsidiaries with an aggregate amount of RMB574 million (2009: RMB447 million) were guaranteed by CEA Holding.

25. 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.

26. Post balance sheet events

On 26 July 2010, the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province ("Yunnan SASAC") and the Company entered into an Agreement to jointly establish a joint venture. The registered capital of the joint venture will be RMB3,661.54 million. Pursuant to the joint venture agreement, the Company will contribute a total of RMB2,380.001 million to the joint venture, representing 65% of the registered capital of the joint venture, of which RMB700 million will be contributed by cash and RMB1,680.001 million will be contributed by other assets. Yunnan SASAC will contribute a total of RMB1,281.539 million to the joint venture, representing 35% of the registered capital of the joint venture, of which RMB253.85 million will be made by cash and RMB1,027.689 million will be made by land use rights.

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SUMMARY OF SELECTED OPERATING DATA

| | For the six months ended 30 June | | |
|---|----------------------------------|-----------|---------|
| | 2010 | 2009 | Change |
| Capacity | | | |
| ATK (available tonne-kilometres) (millions) | 8,586.24 | 6,053.36 | 41.84% |
| — Domestic routes | 4,637.30 | 3,425.60 | 35.37% |
| — International routes | 3,562.90 | 2,346.90 | 51.81% |
| — Regional routes | 386.05 | 280.86 | 37.45% |
| ASK (available seat-kilometres) (millions) | | | |
| ASK (available seat-kilometres) (millions) | 56,381.76 | 40,731.12 | 38.42% |
| — Domestic routes | 40,053.68 | 28,329.16 | 41.39% |
| — International routes | 13,728.68 | 10,441.04 | 31.49% |
| — Regional routes | 2,599.39 | 1,960.92 | 32.56% |
| AFTK (available freight tonne-kilometres) (millions) | | | |
| AFTK (available freight tonne-kilometres) (millions) | 3,511.89 | 2,387.56 | 47.09% |
| — Domestic routes | 1,032.47 | 875.97 | 17.87% |
| — International routes | 2,327.32 | 1,407.21 | 65.39% |
| — Regional routes | 152.10 | 104.38 | 45.72% |
| Hours flown (thousands) | 570.83 | 403.18 | 41.58% |
| Traffic | | | |
| RTK (revenue tonne-kilometres) (millions) | 5,934.42 | 3,663.76 | 61.98% |
| — Domestic routes | 3,248.54 | 2,219.07 | 46.39% |
| — International routes | 2,442.74 | 1,294.04 | 88.77% |
| — Regional routes | 243.14 | 150.65 | 61.39% |
| RPK (revenue passenger-kilometres) (millions) | | | |
| RPK (revenue passenger-kilometres) (millions) | 42,742.54 | 28,848.84 | 48.16% |
| — Domestic routes | 30,907.92 | 21,131.26 | 46.27% |
| — International routes | 9,949.62 | 6,426.69 | 54.82% |
| — Regional routes | 1,885.00 | 1,290.89 | 46.02% |
| RFTK (revenue freight tonne-kilometres) (millions) | | | |
| RFTK (revenue freight tonne-kilometres) (millions) | 2,122.40 | 1,087.99 | 95.08% |
| — Domestic routes | 489.30 | 329.71 | 48.40% |
| — International routes | 1,557.21 | 722.16 | 115.63% |
| — Regional routes | 75.88 | 36.12 | 110.08% |
| Number of passengers carried (thousands) | | | |
| Number of passengers carried (thousands) | 30,120.07 | 20,788.06 | 44.89% |
| — Domestic routes | 25,763.19 | 17,886.54 | 44.04% |
| — International routes | 3,029.27 | 1,963.14 | 54.31% |
| — Regional routes | 1,327.61 | 938.38 | 41.48% |
| Weight of freight carried (kg) (millions) | | | |
| Weight of freight carried (kg) (millions) | 719.02 | 413.38 | 73.94% |
| — Domestic routes | 361.52 | 238.92 | 51.31% |

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| | | | |
|------------------------|--------|--------|---------|
| — International routes | 299.77 | 147.15 | 103.72% |
| — Regional routes | 57.73 | 27.31 | 111.39% |

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| | For the six months ended 30 June | | |
|---|----------------------------------|-------|--------|
| | 2010 | 2009 | Change |
| Load factors | | | |
| Overall load factor (%) | 69.12 | 60.52 | 8.60 |
| — Domestic routes | 70.05 | 64.78 | 5.27 |
| — International routes | 68.56 | 55.14 | 13.42 |
| — Regional routes | 62.98 | 53.64 | 9.34 |
| Passenger load factor (%) | | | |
| Passenger load factor (%) | 75.81 | 70.83 | 4.98 |
| — Domestic routes | 77.17 | 74.59 | 2.58 |
| — International routes | 72.47 | 61.55 | 10.92 |
| — Regional routes | 72.52 | 65.83 | 6.69 |
| Freight load factor (%) | | | |
| Freight load factor (%) | 60.43 | 45.57 | 14.86 |
| — Domestic routes | 47.39 | 37.64 | 9.75 |
| — International routes | 66.91 | 51.32 | 15.59 |
| — Regional routes | 49.89 | 34.61 | 15.28 |
| Break-even load factor (%) | | | |
| Break-even load factor (%) | 66.93 | 60.77 | 6.16 |
| Yield and costs | | | |
| Revenue tonne-kilometers yield (RMB) | | | |
| Revenue tonne-kilometers yield (RMB) | 5.08 | 4.41 | 15.19% |
| — Domestic routes | 5.98 | 4.90 | 22.04% |
| — International routes | 3.66 | 3.39 | 7.96% |
| — Regional routes | 7.31 | 6.00 | 21.83% |
| Passenger-kilometers yield (RMB) | | | |
| Passenger-kilometers yield (RMB) | 0.60 | 0.51 | 17.56% |
| — Domestic routes | 0.61 | 0.50 | 22.00% |
| — International routes | 0.57 | 0.52 | 9.62% |
| — Regional routes | 0.76 | 0.60 | 26.67% |
| Freight tonne-kilometers yield (RMB) | | | |
| Freight tonne-kilometers yield (RMB) | 1.98 | 1.41 | 40.43% |
| — Domestic routes | 1.30 | 1.11 | 17.12% |
| — International routes | 2.07 | 1.43 | 44.76% |
| — Regional routes | 4.54 | 3.61 | 25.76% |
| Available tonne-kilometers unit cost (RMB) | | | |
| Available tonne-kilometers unit cost (RMB) | 3.40 | 2.68 | 26.87% |

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

As at 30 June 2010, the Group operated approximately 9,167 scheduled flights per week, including 7,697 domestic flights, 1,011 international flights and 459 regional flights, to 28 countries and regions serving a total of 171 domestic and foreign cities. In addition, the Group was able to provide more comprehensive air transportation services to major markets around the world through international cooperation efforts, such as code sharing and special pro-rate agreements. As at 30 June 2010, the Group operated a fleet of 338 aircraft, including 320 passenger aircraft and 18 cargo aircraft. During the first half of 2010, we added a total of 19 aircraft to its fleet, including eight A320 aircraft, two A321 aircraft, three B737-700 aircraft, four B737-800 aircraft and two B777F aircraft, and sold and surrendered the lease of twelve aircraft comprising eight MD90 aircraft, one MD11 aircraft, two A320 aircraft and one B737-300 aircraft.

During the first half of 2010, the Group's flights accounted for 53.15% and 37.61% of the passenger throughput of Hongqiao Airport and Pudong Airport, respectively, in terms of passengers carried. The daily average utilization rate of aircraft was 9.5 hours, representing an increase of 0.2 hours compared to the same period in 2009.

During the first half of 2010, especially since the start of the second quarter, the air transportation market rapidly recovered with sustained growth. Financial forecast for the global air transportation industry for 2010 was substantially increased by the International Air Transport Association in June this year. With the gradual recovery of the domestic as well as international economies, the air transportation industry of the PRC grew at a greater pace than the overall level of the international air transportation industry. The market demonstrated an overall trend where the low season was not as severe as compared to the same period in 2009, whilst the high season started sooner and was marked by greater volumes across various sectors as compared to the same period in 2009. During the first half of 2010, the civil aviation industry of the PRC recorded substantial growth of the number of passengers carried and freight transported. We witnessed the gradual synergy resulting from the completion of the absorption of Shanghai Airlines by the Group. The World Expo 2010 Shanghai has been drawing customers to the Shanghai market since its opening in May 2010. The construction of the Group's strategic hub has steadily progressed. During the first half of 2010, the Company recorded outstanding results in passenger and freight marketing, enhancement of services and brand image, cost control, structural realignment, and achieved record level results compared with the corresponding periods in the past years.

In terms of passenger traffic, the Group kept itself abreast of market changes in commanding its transportation capacity to focus on key markets. We also realigned the structure of our routes and enhanced the operating capability of international routes, including resuming and increasing the frequency of international long haul routes, cancelling and revamping routes with low or negative margins, enhancing revenue management, monitoring sales on a real-time basis, and adjusting the allocation of cabin settings in a timely manner. We also commenced online marketing, expanded sales channels, strengthened control over penetration of the market, innovated upon the approach to marketing, and promoted pre-sale products. Adding to the list are the creation of a customer-oriented sales and marketing system to expand the development of frequent flyers and corporate customers; the establishment of an e-commerce platform to increase proportion of direct sales; the stepped-up efforts in marketing for the Shanghai World Expo, whereby routes became more frequent and capacity was adjusted to focus on hot spots for the said event; the steady progression of hub construction whereby a “three-in-three-out” flight frequency is initially established at Pudong Airport to greatly increase the effective connection of flights between Pudong and Hongqiao airports. Meanwhile, the number of passengers transferring at Pudong hub greatly increased with the two-way operation of “automatic transfer of checked baggage for connecting flights”.

In terms of freight transport, we strengthened our market research to accurately comprehend market pulses and our rate for freight transport substantially increased compared with the corresponding period in 2009. We actively pursued our pre-sale and bundled sale programmes for round-trip international flights, achieving increase in round-trip sales. Also, cooperation with various parties was strengthened to attract and secure a batch of high-quality freight supplies. For the first half of 2010, various benchmarks for our freight transport business recorded substantial increase from the same period last year.

In terms of services and brand building, as the first cooperation partner and the designated carrier for passenger aviation of the World Expo 2010 Shanghai, the Group was in full gear in ensuring good service delivery for the said event. Various service elements were rationalized to upgrade our standards, optimize our procedures and enhance efficiency. Several distinctive service features were introduced. Also, the “customer-oriented” service philosophy was emphasized. Brand building and promotion were stepped up to generate greater public awareness.

MANAGEMENT DISCUSSION AND ANALYSIS

According to the statistics of the Civil Aviation Administration of China, the punctuality rate of the Company's flights was 79.64% in the first half of the year, maintaining the Company's no. 1 ranking among civil aviation operators in the PRC, whereas the punctuality rate of Shanghai Airlines' flights was 77.38%, ranking Shanghai Airlines the fourth among civil aviation operators in the PRC.

For the first half of 2010, the Group adopted a new model which is suitable for the construction of the Group's information systems. We established four main centres namely development, operation, project management and communication, and shall advance on areas such as the construction of our business system including the absorption of Shanghai Airlines, customer management, electronic commerce, aircraft operation, the integration of operation and control, enhancement of communication, etc.

For the first half of 2010, the Group continued to implement its "cost benchmark flight scheme", stringently controlling fuel consumption and committing to its pledge on energy saving, emission reduction and promotion of a green environment. We actively fulfilled our corporate social responsibilities, with the completion of our mission of sending the Chinese rescue team to quake-hit Haiti. Upon occurrence of the earthquake in Yushu, Qinghai, the Group swiftly kicked off our contingency mechanism and became the first in four assessment areas in terms of efficiency of rescue and became the first in five assessment areas in terms of scale of rescue. Our efforts were praised and recognized by the public.

Operating revenues

During the first half of 2010, the total traffic volume of the Group was 5,934 million tonne-kilometres, representing an increase of 61.98% from the same period last year, while traffic revenues amounted to RMB30,148 million, representing an increase of 86.44% from the same period last year. It was primarily due to the absorption of Shanghai Airlines by the Company and the rise of per-unit revenue under the Company's development model of organic growth.

During the first half of 2010, passenger traffic volume was 42,743 million passenger kilometres, representing an increase of 48.16% from the same period last year. Compared to the same period last year, passenger revenues increased by 77.19% to RMB25,938 million, accounting for 86.03% of the Group's transportation revenues. It was primarily due to the absorption of Shanghai Airlines by the Company and the increase of ticket prices and passenger load factor of the Company.

Passenger traffic volume on domestic routes was 30,908 million passenger-kilometres, representing an increase of 46.27% from the same period last year. Compared to the same period last year, the domestic passenger revenues increased by 78.77% to RMB18,799 million, accounting for 72.48% of total passenger revenues.

Passenger traffic volume on international routes was 9,950 million passenger-kilometres, representing an increase of 54.82% from the same period last year. Compared to the same period last year, the international passenger revenues increased by 70.38% to RMB5,706 million, accounting for 22% of total passenger revenues.

Passenger traffic volume on regional routes was 1,885 million passenger-kilometres, representing an increase of 46.02% from the same period last year. Compared to the same period last year, the regional passenger revenues increased by 85.16% to RMB1,433 million, accounting for 5.52% of total passenger revenues.

During the first half of 2010, cargo and mail traffic volume was 2,122 million tonne-kilometres, representing an increase of 95.08% from the same period last year. The freight transport revenues was RMB4,210 million, accounting for 13.96% of the Group's transportation revenue, representing an increase of 174.83% from the same period last year. It was primarily due to the increase in price and freight volume driven by the strong recovery of the freight market especially the international freight market.

During the first half of 2010, other operating revenue of the Group amounted to RMB2,979 million, growing by 210.35% over the same period last year. It was mainly attributable to the consolidation of other operating revenue of the subsidiaries of Shanghai Airlines, whereas the other operating revenue of the Company for the same period last year was of a smaller amount.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating expenses

Total operating costs of the Group for the first half of 2010 increased by 90.57% to RMB30,904 million compared to the same period last year. In particular, the cost of air transportation amounted to approximately RMB29,152 million, representing 94.33% of the total operating costs and a 79.76% growth over the same period last year. It was primarily due to the scale expansion as a result of the absorption of Shanghai Airlines and the substantial increase in the average price of air fuel, as well as the net fair value gain of approximately RMB2,794 million recorded last year, which offset in part our operating costs.

During the first half of 2010, the Group's expenditure on aircraft fuel was RMB10,019 million, representing an increase of 95.65% compared to the same period last year. It was mainly attributable to the increase of average price of aviation fuel for the first half of the year which had grown by approximately 37% , as well as the expansion of scale upon absorption of Shanghai Airlines by the Company.

During the first half of 2010, the Group's take-off and landing charges were RMB3,401 million, representing an increase of 27.23% from the same period last year, which was mainly attributable to the increase in take-off and landings as a result of the absorption of Shanghai Airlines despite the drop in average costs of take-offs and landings.

During the first half of 2010, the gain on Group's other operating expenses – fuel hedging, was RMB225 million, representing a decrease of 92.02% compared to the same period last year, of which, the net gain on the fair value change arising from the crude oil futures contracts is approximately RMB224 million, representing a decrease of 91.97% as compared with the corresponding period last year. The decrease is mainly attributable to a drop of 75% in the open interest of non-deliverable crude oil futures in the end of June 2010 as compared to the end of June 2009, causing a significant decrease in the gain on fair value change arising from the crude oil futures contracts as compared with the corresponding period last year. In the first half of 2010, the actual deliverable cash outflow of the crude oil futures contracts of the Company amounted to approximately RMB67 million.

As at 30 June 2010, the sensitivity analysis in respect of crude oil futures contracts is as follows:

If international crude oil price decreases by 10%, 20% and 30% respectively as compared to the closing price on 30 June 2010, the fair value loss on 31 December 2010 will decrease by RMB35 million, increase by RMB286 million and increase by RMB691 million respectively as compared to the fair value loss on 30 June 2010;

If international crude oil price increases by 10%, 20% and 30% respectively as compared to the closing price on 30 June 2010, the fair value loss on 31 December 2010 will decrease by RMB462 million, increase by RMB596 million and decrease by RMB683 million respectively as compared to the fair value loss on 30 June 2010. The above change in fair value will affect the profit or loss as well as the financial position for year 2010.

During the first half of 2010, the Group's depreciation and amortisation were RMB3,217 million, representing an increase of 27.21% compared to the same period last year.

During the first half of 2010, the Group's wages, salaries and benefits expenses were RMB3,505 million, representing an increase of 54.40% compared to the same period last year. This was primarily due to the increase of headcount as a result of the inclusion of staff members of Shanghai Airlines.

During the first half of 2010, the Group's aircraft maintenance expenses were RMB1,993 million, representing an increase of 64.78% compared to the same period last year. This was primarily due to the increase in the number of engines being repaired and the expanded scale of our fleet.

During the first half of 2010, the Group's in-flight food and beverages expenses were RMB701 million, representing an increase of 14.39% compared to the same period last year, primarily due to the stringent control over procurement cost, which controlled the increase in in-flight food and beverage expenses notwithstanding the substantial increase in passenger traffic volume.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2010, the Group's aircraft operating lease rentals were RMB1,917 million, representing an increase of 51.25% compared to the same period last year.

During the first half of 2010, the Group's other operating lease rentals were RMB258 million, representing an increase of 34.71% compared to the same period last year.

During the first half of 2010, the Group's selling and marketing expenses were RMB1,592 million, representing an increase of 85.14% compared to the same period last year, primarily due to the expanded scale of operation upon absorption of Shanghai Airlines and the increase in both sales volume and sales price with the boosted market demand, which in turn contributed to the growth of sales agency subcharge.

During the first half of 2010, the Group's payment of civil aviation infrastructure levies increased by 43.82% to RMB614 million compared to the same period last year.

During the first half of 2010, the Group's office, administrative and other expenses increased by 65.16% to RMB2,838 million compared to the same period last year. It was mainly due to the fact that revenue growth more than offset the growth of costs as a result of the synergy brought by the absorption of Shanghai Airlines.

Other operating income

During the first half of 2010, the Group's other operating income decreased by 71.48% to RMB317 million compared to the same period last year, mainly as a result of the refund of civil aviation infrastructure levies in the same period last year, whereas there was no such income this year.

Finance costs

During the first half of 2010, the Group's finance income was RMB191 million, and its finance costs were RMB782 million, primarily comprising the interest expense of RMB614 million on loans from banks and other financial institutions, representing a decrease of 29.72% compared to the same period last year, and the interest expense was RMB165 million on finance lease obligations, representing a decrease of 48.97% compared to the same period last year.

The Group usually uses hedging contracts for foreign currencies to reduce the risks in exchange rates for foreign currency revenue from ticket sales and expenses which are to be paid in foreign currencies. Foreign currency hedging mainly involves the sales of Japanese Yen or the purchase of US dollars at fixed exchange rates. As of 30 June 2010, the foreign currency hedging contracts held by the Group which are still open amounted to a notional amount of US\$64 million (31 December 2009: US\$82 million), which will expire between 2010 and 2017.

Operating profit/(loss)

The Group's profit attributable to equity holders for the six months ended 30 June 2010 was RMB1,761 million, while its profit per share attributable to equity holders was RMB0.16 (the weighted average number of ordinary shares the Company issued and outstanding as at 30 June 2010 was 11,020,893,000 shares).

Liquidity, capital resources and capital structure

The Group generally finances its working capital requirements through business operations and short-term bank loans. As at 30 June 2009 and 2010, the Group had cash and cash equivalents of RMB3,797 million and RMB4,461 million respectively. Net cash generated by the Group's operating activities was RMB563 million of outflow and RMB4,821 million of inflow. Other than expenditure on operating costs, the Group's primary cash requirements in the first half of 2010 were for acquisitions of, and improvements in, aircraft and flight equipment and for payment of related indebtedness. During the period ended 30 June 2009 and 2010, the Group's net cash employed in investment activities was RMB1,840 million and RMB4,700 million respectively. During the period ended 30 June 2010, the net cash generated from the Group's financing activities was RMB2,626 million, mainly for the repayment of long-term loans, finance leases and short-term loans. The net cash inflow from the Group's financing activities during the period ended 30 June 2009 was RMB2,746 million, which was mainly derived from proceeds of bank borrowings.

The Group generally operates with net current liabilities. As at 30 June 2010, the Group's current liabilities exceeded its current assets by RMB31,757 million. For years, the Group has arranged, and believes it will be able to continue to arrange, short-term loans through domestic banks or foreign banks in the PRC to meet its working capital requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group monitors capital on the basis of the gearing ratio, which is calculated as total liabilities divided by total assets. The gearing ratio as 30 June 2010 is 0.89.

As of 31 December 2009 and 30 June 2010, the total amount of the Group's short-term loans were RMB8,407 million and RMB14,852 million, respectively, and the Group's long-term loans were RMB16,928 million and RMB25,716 million, respectively. As of 31 December 2009, the Group's long-term loans payable within two years, from three to five years and beyond five years were RMB6,637 million, RMB6,166 million and RMB4,125 million, respectively, as compared to RMB12,443 million, RMB6,906 million and RMB6,367 million respectively, as of 30 June 2010.

The Group's obligations under finance leases as of 31 December 2009 and 30 June 2010 were RMB19,370 million and RMB19,279 million, respectively. As of 31 December 2009, the Group's lease obligations payable within two years, from three to five years and beyond five years were RMB4,219 million, RMB6,785 million and RMB8,366 million, respectively, as compared to RMB4,378 million, RMB6,965 million and RMB7,936 million, as of 30 June 2010.

As of 31 December 2009, in the Group's borrowings, the U.S. dollar-denominated borrowings amounted to USD1,927 million, the Euro-denominated borrowings amounted to Euro12 million and the Renminbi-denominated borrowings amounted to RMB12,064 million. The borrowings bearing interest at fixed rates accounted for 11% of the Group's total borrowings, whereas the borrowings bearing interest at variable rates accounted for 89% of the Group's total borrowings. As of 30 June 2010, in the Group's borrowings, the U.S. dollar-denominated borrowings amounted to USD3,347 million and the Renminbi-denominated borrowings amounted to RMB17,839 million. The borrowings bearing interest at fixed rates accounted for 10% of the Group's total borrowings, whereas the borrowings bearing interest at variable rates accounted for 90% of the Group's total borrowings.

As of 31 December 2009, in the Group's obligations under finance lease, the U.S. dollar-denominated obligations amounted to USD2,578 million and the Renminbi-denominated obligations amounted to RMB1,765 million. The finance lease obligations bearing interest at fixed rates accounted for 0.7% of the Group's total finance lease obligations, whereas the finance lease obligations bearing interest at variable rates accounted for 99.3% of the Group's total finance lease obligations. As of 30 June 2010, in the Group's finance lease obligations, the U.S. dollar-denominated obligations amounted to USD2,603 million and the Renminbi-denominated obligations amounted to RMB1,602 million. The finance lease obligations bearing interest at fixed rates accounted for 0.4% of the Group's total finance lease obligations, whereas the finance lease obligations bearing interest at variable rates accounted for 99.6% of the Group's total finance lease obligations.

Pledges on assets and contingent liabilities

The Group generally finances its purchases of aircraft which is secured by its assets. As at 30 June 2010, the total value of the Group's mortgaged assets amounted to RMB19,625 million, representing an increase of 43.48% from RMB13,678 million as at the end of 2009.

Employees

As at 30 June 2010, the Group had about 54,706 employees, the majority of whom are located in the PRC. The wages of the Group's employees generally consist of basic salaries and performance bonuses. During the first half of 2010, the Group was not involved in any major labour disputes with its employees, nor has it experienced a substantial reduction in the number of employees, nor has the Group encountered any difficulty in recruiting new employees.

Outlook and prospects for the second half of 2010

The Group would like to caution readers that this report contains certain forward-looking statements, such as descriptions of the Group's work plans for the second half of the year and beyond, and forward-looking statements on the global and domestic economies and aviation markets. Such forward-looking statements are subject to numerous uncertainties and risks, and actual events may be materially different from those indicated in the forward-looking statements.

The Company considers that the global economy is gradually recovering and the foundation for performance of the PRC economy is further strengthening and contributing to the stable development of the economy. With the recovery in the demand for air transportation, the civil aviation market of the PRC is expected to grow at an accelerated pace. In the second half of 2010, the Company will grasp the favorable opportunity brought by the high season of the market as well as the Shanghai World Expo. We will optimize our market allocation, strengthen cost control and enhance our operating capability to strive for better profitability. While the overall economy and demand for aviation continues to strengthen, the Company will continue to encounter a number of uncertainties which cannot be overlooked. Firstly, the unstable basis for the recovery of the global economy, as evidenced by the weak recovery of the European economy, has affected the European market greatly, particularly in relation to its freight transportation market. The second factor is the fluctuation of oil prices, which exerts great pressure on the ability to control fuel costs. Thirdly, the expectation of interest rates increases will persist, and any such increases may potentially further increase the finance costs of the Company. Fourthly, the frequent fluctuations in foreign currency exchange rates will affect the income from international routes to a certain extent.

MANAGEMENT DISCUSSION AND ANALYSIS

In response to the current market operating environment and the particular situation of the Company, it will be our major plan in the second half of 2010 to:

- (1) focus on safety for the Shanghai World Expo and enhance the overall level of safety management by strengthening the management and practical implementation of safety standards;
- (2) keep up with our efforts in optimizing our fleet and actively realign the structure of our routes according to the change in market demand and continually explore new markets, enhance the depth of our marketing and consolidate hub and network construction;
- (3) stringently control cost and expenses and enhance efficiency in funding utilization;
- (4) accelerate transformation of service delivery and strengthen control over irregular flights by leveraging upon the opportunity of serving the Shanghai World Expo, and promote the construction of our product system in all aspects; and
- (5) leverage upon the thorough integration of the Group and Shanghai Airlines to further take advantage of the synergy of such reorganization.

FLEET PLANNING

As at 30 June 2010, the details of our aircraft on order, which are scheduled and expected to be introduced and put into service, are as follows:

| Year of delivery | Type of aircraft | Number of aircraft |
|---------------------|------------------|--------------------|
| Second half of 2010 | A320 | 6 |
| | A321 | 1 |
| | B737-700 | 2 |
| | B737-800 | 9 |
| | B777F | 2 |
| 2011 | A320 | 11 |
| | A321 | 2 |
| | A330 | 3 |
| | B737-700 | 2 |
| | B737-800 | 5 |
| | B777F | 2 |

MATERIAL MATTERS

1. Dividends

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2010.

2. Share capital structure

| | Total number of shares | Approximate Percentage of shareholding |
|---|---------------------------|--|
| I. A shares | | |
| 1. Listed shares with trading moratorium | 5,980,263,860 | 53.03 |
| 2. Listed shares without trading moratorium | 1,801,950,000 | 15.98 |
| II. H shares | 3,494,325,000 | 30.99 |
| III. Total number of shares | 11,276,538,860 | 100 |

3. Substantial Shareholders

So far as the directors of the Company (the “Directors”) are aware, each of the following persons, not being a Director, chief executive, supervisor of the Company or member of the Company’s senior management, had, as at 30 June 2010, an interest and/or short position in the Company’s shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the “SFO”), or was otherwise, as at 30 June 2010, interested in 5% or more of any class of the then issued share capital of the Company, or was otherwise, as at 30 June 2010, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)) of the Company:

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MANAGEMENT DISCUSSION AND ANALYSIS

| Name of shareholders | Nature of shares held | Number of shares held | As at 30 June 2010 | | | Short position |
|---|-----------------------|-----------------------|--|---|---|----------------|
| | | | Approximate percentage of shareholding in the Company's total issued share capital | Approximate percentage of shareholding in the Company's total issued A shares | Approximate percentage of shareholding in the Company's total issued H shares | |
| China Eastern Air Holding Company ("CEA Holding") | A shares | 4,831,375,000 | 42.84% | 62.08% | – | – |
| CEA Holding (Note 1) | H shares | 1,927,375,000 | 17.09% | – | 55.16% | – |
| HKSCC Nominees Limited (Notes 2 to 3) | H shares | 3,472,202,039 | 30.79% | – | 99.37% | – |

Notes:

Based on the information available to the Directors as at 30 June 2010 (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as they are aware of and understand, as at 30 June 2010:

- Such H shares were held by () (CES Global Holdings (Hong Kong) Limited) ("CES Global"), in the beneficial owner, which in turn was 100% held by CEA Holding.
- Among the 3,472,202,039 H shares held by HKSCC Nominees Limited, 1,927,375,000 H shares (representing approximately 55.16% of the Company's then total issued H shares) were held by CES Global in the capacity of beneficial owner, which in turn was owned as to 100% by CEA Holding.

3. Among the 3,472,202,039 H shares held by HKSCC Nominees Limited, 184,778,000 H shares (representing approximately 5.29% of the Company's then total issued H shares) were held by China National Aviation Corporation (Group) Limited in the capacity of beneficial owner, which in turn was ultimately 100% controlled by China National Aviation Holding Company.

Save as disclosed above, based on the information available to the Directors and so far as they are aware, as at 30 June 2010, among the 3,472,202,039 H shares held by HKSCC Nominees Limited, no other person had any interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. Shareholdings of Directors, supervisors, chief executives and senior management
The interests of the Directors, supervisors, chief executives and senior management of the Company in the issued share capital of the Company as at 30 June 2010 are set out as follows:

| Name | Position | Number of listed A shares held — Personal interest | Capacity in which the A shares were held |
|--------------|-----------------------------|---|---|
| Liu Shaoyong | Chairman, Director | 0 | — |
| Li Jun | Vice-Chairman, Director | 0 | — |
| Ma Xulun | Director | 0 | — |
| Luo Chaogeng | Director | 6,600 A shares (Note 1) | Beneficial owner |
| Luo Zhuping | Director, Company secretary | 11,616 A shares (Note 2) | Beneficial owner |

MANAGEMENT DISCUSSION AND ANALYSIS

| Name | Position | Number of listed A shares held — Personal interest | Capacity in which the A shares were held |
|------------------|--|---|---|
| Sandy Ke-Yaw Liu | Independent non-executive Director | 0 | — |
| Wu Xiaogen | Independent non-executive Director | 0 | — |
| Ji Weidong | Independent non-executive Director | 0 | — |
| Shao Ruiqing | Independent non-executive Director | 0 | — |
| Liu Jiangbo | Chairman of the Supervisory Committee | 0 | — |
| Xu Zhao | Supervisor | 0 | — |
| Yan Taisheng | Supervisor | 0 | — |
| Feng Jinxiong | Supervisor | 0 | — |
| Liu Jiashun | Supervisor | 3,960 A shares (Note 3) | Beneficial owner |
| Zhang Jianzhong | Vice President | 0 | — |
| Li Yangmin | Vice President | 3,960 A shares (Note 3) | Beneficial owner |
| Zhao Jinyu | Vice President | 0 | — |
| Tang Bin | Vice President | 0 | — |
| Wu Yongliang | Chief Financial Officer | 3,696 A shares (Note 4) | Beneficial owner |

Note 1: representing approximately 0.000085% of the Company's total issued and listed A shares, totalling 7,782,213,860 A shares, as at 30 June 2010.

Note 2: representing approximately 0.000149% of the Company's total issued and listed A shares, totalling 7,782,213,860 A shares, as at 30 June 2010.

Note 3: representing approximately 0.000051% of the Company's total issued and listed A shares, totalling 7,782,213,860 A shares, as at 30 June 2010.

Note 4: representing approximately 0.000047% of the Company's total issued and listed A shares, totalling 7,782,213,860 A shares, as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, none of the Directors, the Company's supervisors, chief executives or members of senior management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules (which for this purpose shall be deemed to apply to the supervisors of the Company to the same extent as it applies to the Directors).

5. Purchase, sale or redemption of securities

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its issued securities ("securities" having the meaning ascribed thereto under Article 1 of Appendix 16 to the Listing Rules, without taking into account any issue of new securities).

During the six months ended 30 June 2010, the Company has adopted a model code on no less exacting terms than the Model Code as its code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, the Company understands that the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Corporate governance practices

The Board has reviewed the relevant provisions and corporate governance practices under the codes of corporate governance practices adopted by the Company, and took the view that the Company's corporate governance practices during the six months ended 30 June 2010 met the requirements under the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

7. Material litigation and arbitration

The Group was not involved in any material litigation or arbitration during the six months ended 30 June 2010.

8. Audit and Risk Management Committee

The Audit and Risk Management Committee has reviewed the accounting principles and methods adopted by the Group with the management of the Company, and has discussed with the Board regarding the internal control and financial reporting issues, including a review of the unaudited interim financial statements of the Group for the six months ended 30 June 2010.

The Audit and Risk Management Committee does not have any difference in opinion on the accounting principles and methodology adopted by the Group.

9. Changes in personnel

| Name | Date of Appointment/ Termination | Approval Organization | Position |
|-----------------|-------------------------------------|--|------------------------------------|
| Termination | | | |
| Hu Honggao | 19 March 2010 | the 33rd meeting of the 5th session of the Board | Independent non-executive Director |
| Zhou Ruijin | 19 March 2010 | the 33rd meeting of the 5th session of the Board | Independent non-executive Director |
| Fan Ru | 6 May 2010 | the 37th meeting of the 5th session of the Board | Vice President |
| Wu Baiwang | 28 June 2010 | Not applicable; expiration of terms of service | Independent non-executive Director |
| Xie Rong | 28 June 2010 | Not applicable; expiration of terms of service | Independent non-executive Director |
| New Appointment | | | |
| Tang Bing | 1 February 2010 | the 35th meeting of the 5th session of the Board | Vice President |
| Wu Xiaogen | 19 March 2010 | the first extraordinary general meeting in 2010 | Independent non-executive Director |
| Ji Weidong | 19 March 2010 | the first extraordinary general meeting in 2010 | Independent non-executive Director |
| Shao Ruiqing | 28 June 2010 | the 2009 annual general meeting | Independent non-executive Director |

MANAGEMENT DISCUSSION AND ANALYSIS

10. Miscellaneous

The Company wishes to highlight the following information:

(1) On 10 July 2009, the Company entered into an absorption agreement with (Shanghai Airlines Co., Ltd) (“Shanghai Airlines”) in relation to the absorption of Shanghai Airlines by way of the issuance of new A shares of the Company in exchange for the existing issued shares of Shanghai Airlines on the basis of 1.3 A shares of the Company for every existing issued share of Shanghai Airlines. The exchange of A shares was completed on 28 January 2010. As of 28 January 2010, the identifiable net liabilities of Shanghai Airlines acquired by the Company had a book value of approximately RMB776 million and a fair value of approximately RMB2,151 million. Details are set out in the announcements of the Company issued in Hong Kong dated 10 July 2009, 10 August 2009, 10 September 2009, 9 October 2009, 7 January 2010, 11 January 2010, 13 January 2010, 18 January 2010, 26 January 2010, 28 January 2010, 26 February 2010, 30 March 2010, 30 April 2010, 31 May 2010, 30 June 2010 and 30 July 2010 and the circular of the Company dated 25 August 2009.

At the extraordinary general meeting of the Company held on 9 October 2009, the Board was authorized by the shareholders of the Company to make such appropriate and necessary amendments to the Company’s articles of association as the Board thinks fit to reflect such increases in the registered capital and change of shareholding of the Company as a result of the completion of the exchange of A shares mentioned above. With completion of the exchange of A shares on 28 January 2010 and the listing of the issued A shares of the Company as a result of the said exchange of A shares commencing on 2 February 2010, the corresponding amendments made to certain articles of association of the Company as a result of the completion of the said absorption became effective on 2 February 2010. For details, please refer to the announcement of the Company issued in Hong Kong dated 2 February 2010.

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- (2) On 12 January 2010, the Company, (Jiangsu Guoxin Investment Group Limited), (Communication Holding Limited) (formerly known as (Jiangsu Aviation Group Company Limited)) and (Nanjing Investment Company) (together referred to as the “Shareholders”) entered into the CEA Jiangsu Joint Venture Capital Increase Agreement, pursuant to which the Shareholders unanimously agreed to increase the share capital of Eastern Airlines Jiangsu Co., Ltd.) (“CEA Jiangsu”) according to the existing proportion of their respective shareholding interests in CEA Jiangsu, and the registered capital of CEA Jiangsu shall be increased from RMB880 million to RMB2,000 million. For details, please refer to the overseas regulatory announcement of the Company issued in Hong Kong dated 12 January 2010.
- (3) On 24 March 2010, the Company and (Eastern Aviation Advertising Company Limited) (“CEA Media”) entered into an agreement, pursuant to which the Company agreed to grant CEA Media exclusive rights to operate the media resources of the Company. For details, please refer to the announcement of the Company issued in Hong Kong dated 24 March 2010.
- (4) On 27 July 2010, the State-owned Assets Supervision and Administration Commission of the People’s Government of Yunnan Province (“Yunnan SASAC”) and the Company entered into an agreement, pursuant to which Yunnan SASAC and the Company agreed to jointly establish (Eastern Airlines Yunnan Limited Corporation) (the “Joint Venture”). Pursuant to the Agreement, the registered capital of the Joint Venture shall be contributed as to 65% by the Company and 35% by Yunnan SASAC, respectively. For details, please refer to the announcement of the Company issued in Hong Kong dated 26 July 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

(5) On 28 July 2010, Shanghai Airlines and [Shanghai Airlines International \(Group\) Co., Ltd.](#) (“SA Travel”) entered into an agreement with [Eastern Aviation Import & Export Company](#) (“CEA Import & Export”) pursuant to which Shanghai Airlines agreed to sell and CEA Import & Export agreed to purchase 89.72% of the entire issued share capital of [Shanghai Aviation Import & Export Co., Ltd.](#) (“SA Import & Export”), and SA Travel agreed to sell and CEA Import & Export agreed to purchase 10.28% of the entire issued share capital of SA Import & Export (the “SA Import & Export Disposal”).

On 28 July 2010, Shanghai Airlines and [Shanghai Airlines Industry Co., Ltd.](#) (“SA Industry”) entered into an agreement with [Eastern Air Catering Investment Co. Ltd.](#) (“CEA Catering”), pursuant to which Shanghai Airlines agreed to sell and CEA Catering agreed to purchase 50% of the entire issued share capital of [Shanghai Air Catering Co., Ltd.](#) (“SA Catering”), and SA Industry agreed to sell and CEA Catering agreed to purchase 20% of the entire issued share capital of SA Catering (the “SA Catering Disposal”).

On 28 July 2010, Shanghai Airlines and SA Travel entered into an agreement with CEA Media, pursuant to which Shanghai Airlines agreed to sell and CEA Media agreed to purchase 49% of the entire issued share capital of [Shanghai Airlines Communication Co., Ltd.](#) (“SA Media”), and SA Travel agreed to sell and CEA Media agreed to purchase 51% of the entire issued share capital of SA Media (the “SA Media Disposal”).

Each of CEA Import & Export, CEA Catering and CEA Media is interested as to 55% by, and thus an associate of, CEA Holding, which is a substantial shareholder of the Company. As such, each of CEA Import & Export, CEA Catering and CEA Media is a connected person of the Company and each of the SA Import & Export Disposal, the SA Catering Disposal and the SA Media Disposal constitutes a connected transaction of the Company. For details, please refer to the announcement of the Company issued in Hong Kong dated 28 July 2010.

- (6) The authorised representative in Hong Kong (for the purpose of Section 333 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong) of the Company has been changed from Mr. Cheung Sau Ting to Mr. Zhang Youjun with effect from 30 July 2010. For details, please refer to the announcement of the Company issued in Hong Kong dated 30 July 2010.
- (7) With effect from 10 August 2010 (Eastern Standard Time), the ratio for its American Depository Shares (the “ADS”) representing H shares of the Company (“H Shares”) changed, from: one (1) ADS representing one hundred (100) H Shares to one (1) ADS representing fifty (50) H Shares. For details, please refer to the overseas regulatory announcement of the Company issued in Hong Kong dated 6 August 2010.
- (8) The annual caps for the continuing connected transactions of the Company, which were passed by the Board and the general meeting of the Company and their actual amounts as at 30 June 2010 are set out as follows:

| Category | Incurring up to 30 June 2010 (RMB million) | The approved 2010 annual caps (RMB million) |
|---|---|---|
| Financial services (balance of deposit) | 1,180 | 2,500 |
| Catering services | 245.664 | 621.49 |
| Import and export agency services | 26.989 | 69.5 |
| Maintenance services | 2.259 | 20 |
| Property leasing | 27.57 | 60 |
| Advertising agency services | 6.732 | 26 |
| Sales agency services (agency fee) | 5.242 | 19.72 |
| Automobile repairing services | 17.054 | 42 |
| Media resources operation services | 0 | 30 |

By order of the Board
 CHINA EASTERN AIRLINES CORPORATION LIMITED
 Liu Shaoyong
 Chairman

Shanghai, the People’s Republic of China
 27 August 2010

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MANAGEMENT DISCUSSION AND ANALYSIS

The Directors as at the date of this report are:

| | |
|------------------|--------------------------------------|
| Liu Shaoyong | (Chairman) |
| Li Jun | (Vice Chairman) |
| Ma Xulun | (Director, President) |
| Luo Chaogeng | (Director) |
| Luo Zhuping | (Director, Company Secretary) |
| Sandy Ke-Yaw Liu | (Independent non-executive Director) |
| Wu Xiaogen | (Independent non-executive Director) |
| Ji Weidong | (Independent non-executive Director) |
| Shao Ruiqing | (Independent non-executive Director) |

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