CHINA EASTERN AIRLINES CORP LTD
Form 20-F
June 11, 2009

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

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

OR

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

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

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

Commission file number 1-14550

(Exact Name of Registrant as Specified in Its Charter)

China Eastern Airlines Corporation Limited	The People's Republic of China
(Translation of Registrant's Name Into English)	(Jurisdiction of Incorporation or Organization)

2550 Hongqiao Road
Hongqiao Airport
Shanghai 200335
The People's Republic of China
(8621) 6268-6268
(Address and Telephone Number of Principal Executive Offices)

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

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

* Not for trading, but only in connection with the registration of American Depositary Shares. The Ordinary H Shares are also listed and traded on The Stock Exchange of Hong Kong Limited.

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

None
(Title of Class)
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)
Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2008, 3,300,000,000 Ordinary Domestic Shares, par value RMB1.00 per share, were issued and outstanding, and 1,566,950,000 Ordinary H Shares par value RMB1.00 per share, were issued and outstanding. H Shares are Ordinary Shares of the Company listed on The Stock Exchange of Hong Kong Limited.

Indicate by check mark if the registrant is a well-known seasoned issuers, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨   Accelerated Filer þ   Non-Accelerated Filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨   International Financial Reporting Standards as issue by the International Accounting Standards Board þ   Other ¨

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

SUPPLEMENTAL INFORMATION AND EXCHANGE RATES

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

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

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

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

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

— our fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;

— the planned expansion of our cargo operations;

— the impact of changes in the policies of the Civil Aviation Administration of China, or the CAAC, regarding route rights;

— the impact of the CAAC policies regarding the restructuring of the airline industry in China;

— certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;

— our expansion plans, including acquisition of other airlines;

— our marketing plans, including the establishment of additional sales offices;

— our plan to add new pilots; and

— the impact of unusual events on our business and operations.

The words or phrases “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “going forward”, “intend”, “ou “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would”, and similar expressions, as they relate to our Comp management, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements are, by their nature, subject to inherent risks and uncertainties, some of which are beyond our control, and are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement, including, without limitation:

— any changes in the regulatory policies of the CAAC;

— the effects of competition on the demand for and price of our services;

— the availability of qualified flight personnel and airport facilities;

— any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of our borrowings are denominated;

— the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;

— changes in political, economic, legal and social conditions in China;

— the fluctuation of interest rates;

— our ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and

— general economic conditions in markets where our Company operates.

GLOSSARY OF TECHNICAL TERMS

Capacity measurements

ATK (available tonne-kilometers)	the number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown
ASK (available seat kilometers)	the number of seats made available for sale multiplied by the distance flown
AFTK (available freight tonne-kilometers)	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the distance flown

Traffic measurements

revenue passenger-kilometers or RPK	the number of passengers carried multiplied by the distance flown
revenue freight tonne-kilometers or RFTK	cargo and mail load in tonnes multiplied by the distance flown
revenue passenger tonne-kilometers or RPTK	passenger load in tonnes multiplied by the distance flown
revenue tonne-kilometers or RTK	load (passenger and cargo) in tonnes multiplied by the distance flown

Load factors

overall load factor	tonne-kilometers expressed as a percentage of ATK
passenger load factor	passenger-kilometers expressed as a percentage of ASK
break-even load factor	the load factor required to equate traffic revenue with our operating costs assuming that our total operating surplus is attributable to scheduled traffic operations

Yield and cost measurements

passenger yield (revenue per passenger-kilometer)	revenue from passenger operations divided by passenger-kilometers
cargo yield (revenue per cargo tonne-kilometer)	revenue from cargo operations divided by cargo tonne-kilometers
average yield (revenue per total tonne-kilometer)	revenue from airline operations divided by tonne-kilometers

unit cost	operating expenses divided by ATK
Tonne	a metric ton, equivalent to 2,204.6 lbs

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected financial data from the consolidated income statements for the years ended December 31, 2006, 2007 and 2008 and the selected financial data from the balance sheets as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards, or IFRS, as adopted by the International Accounting Standards Board ("IASB") and audited by PricewaterhouseCoopers, an independent registered public accounting firm in Hong Kong. PricewaterhouseCoopers' reports in respect of the consolidated income statements for the years ended December 31, 2006, 2007 and 2008 and the consolidated balance sheets as of December 31, 2007 and 2008 and the related footnotes are included in this Annual Report.

Pursuant to SEC Release 33-8879 "Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP" eliminating the requirement for foreign private issuers to reconcile their financial statements to U.S. GAAP, we prepare our financial statements based on the IFRS and no longer provide a reconciliation between IFRS and U.S. GAAP.

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

	Year Ended December 31,				
	2004(1)	2005(1)	2006(2)	2007(2)	2008
	RMB	RMB	RMB	RMB	RMB
	(in millions, except per share or per ADS data)				
Consolidated Income Statements Data:					
IFRS:					
Revenues	21,328	27,380	37,557	42,534	41,073
Other operating income and gains	85	245	499	488	672
Operating expenses	(20,117)	(27,562)	(40,795)	(42,894)	(56,828)
Operating profit / (loss)	1,296	63	(2,740)	128	(15,083)
Finance income / (costs), net	(641)	(578)	(731)	162	(267)
Profit / (loss) before income tax	650	(528)	(3,338)	378	(15,256)
Profit / (loss) for the year attributable to equity holders of the Company	385	(418)	(3,035)	379	(15,269)
	0.08	(0.09)	(0.62)	0.08	(3.14)

Basic and fully diluted earnings / (loss) per share(2)					
Basic and fully diluted earnings / (loss) per ADS	7.91	(8.58)	(62.35)	(7.78)	(313.72)

	Year Ended December 31,				
	2004(1)	2005(1)	2006(2)	2007(2)	2008
	RMB	RMB	RMB	RMB	RMB
			(in millions)		
Balance Sheet Data:					
IFRS:					
Cash and cash equivalents	2,114	1,864	1,987	1,655	3,451
Net current liabilities	(12,472)	(25,548)	(24,588)	(26,098)	(43,458)
Non-current assets	35,918	52,106	51,725	57,949	62,652

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	Year Ended December 31,				
	2004(1) RMB	2005(1) RMB	2006(2) RMB (in millions)	2007(2) RMB	2008 RMB
Long term borrowing, including current portion	(10,736)	(12,659)	(14,932)	(14,675)	15,628
Obligations under finance lease, including current portion	(8,662)	(10,588)	(11,949)	(16,452)	(20,809)
Total share capital and reserves	5,897	5,561	2,534	2,361	(13,097)

(1) The figures for the years ended December 31, 2004 and 2005 have been restated as a result of the changes of accounting policy.

(2) The figures for the years ended December 31, 2006 and 2007 have been restated as a result of the changes of accounting policy. Please refer to Note 2(b) of the Financial Statements attached to this annual report on Form 20-F for more details.

(3) The calculation of (loss)/earnings per share is based on the consolidated (loss)/profit attributable to shareholders and the weighted average number of shares of 4,866,950,000 in issue during the year.

Exchange Rate Information

We present our historical consolidated financial statements in Renminbi. For the convenience of the reader, certain pricing information is presented in U.S. dollars and certain contractual amounts that are in Renminbi or Hong Kong dollar amounts include a U.S. dollar equivalent at the exchange rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008 of RMB6.8225=US$1.00 and HK$7.7499=US$1.00. We make no representation that the Renminbi, Hong Kong dollar or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars, Hong Kong dollars or Renminbi, as the case may be, at any particular rate or at all.

The exchange rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.8278 = US$1.00 and HK$7.7519 =US$1.00 on May 29, 2009. The following table sets forth information concerning exchange rates between the RMB, Hong Kong dollar and the U.S. dollar for the periods indicated based on the exchange rate in New York City for cable transfers of in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

	RMB per US$1.00		HK$ per US$1.00	
	High	Low	High	Low
November 2008	6.8373	6.8220	7.7560	7.7497
December 2008	6.8842	6.8225	7.7522	7.7497
January 2009	6.8403	6.8225	7.7618	7.7504
February 2009	6.8470	6.8241	7.7551	7.7511
March 2009	6.8438	6.8240	7.7593	7.7494
April 2009	6.8361	6.8180	7.7508	7.7495
May 2009	6.8326	6.8176	7.7526	7.7500

The following table sets forth the average rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2004, 2005, 2006, 2007 and 2008, calculated by averaging the exchange rates on the last day of each month during the relevant year:

	RMB per US$1.00	HK$ per US$1.00
2004	8.2768	7.7899
2005	8.1826	7.7755
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814

Selected Operating Data

The following table sets forth certain operating data of our Company for the five years ended December 31, 2008, which are not audited. All references in this Annual Report to our cargo operations, cargo statistics or cargo revenues include figures for cargo and mail.

	Year Ended December 31,				
	2004	2005	2006	2007	2008
Selected Airline Operating Data:					
Capacity:					
ATK (millions)	7,071.2	8,751.5	11,065.6	12,085.9	11,642.2
ASK (millions)	41,599.1	52,427.9	70,468.3	77,717.2	75,964.3
AFTK (millions)	3,327.3	4,033.0	4,723.4	5,091.3	4,805.4
Traffic:					
Revenue passenger-kilometers (millions)	27,580.8	36,380.6	50,271.9	57,182.6	53,785.3
Revenue tonne-kilometers (millions)	4,340.7	5,395.2	6,931.0	7,713.9	7,219.0
Revenue passenger tonne-kilometers (millions)	2,466.0	3,243.7	4,487.0	5,099.8	4,798.9
Revenue freight tonne-kilometers (millions)	1,874.7	2,151.5	2,444.0	2,614.1	2,420.1
Kilometers flown (millions)	242.8	287.7	434.6	478.1	467.0
Hours flown (thousands)	360.4	467.8	678.3	756.0	755.2
Number of passengers carried (thousands)	17,711.0	24,290.5	35,039.7	39,161.4	37,231.5
Weight of cargo carried (millions of kilograms)	663.6	775.5	893.2	940.1	889.5

	Year Ended December 31,				
	2004	2005	2006	2007	2008
Average distance flown (kilometers per passenger)	1,557.3	1,497.7	1,434.7	1,460.2	1,444.6
Load Factor:					
Overall load factor (%)	61.4	61.7	62.6	63.8	62.0
Passenger load factor (%)	66.3	69.4	71.3	73.6	70.8
Break-even load factor (based on ATK) (%)	62.2	66.0	71.1	67.7	90.7
Yield and Cost Statistics (RMB):					
Passenger yield (passenger revenue/ passenger-kilometers)	0.56	0.57	0.61	0.62	0.62
Cargo yield (cargo revenue/cargo tonne-kilometers)	2.36	2.31	2.30	2.10	2.21
Average yield (passenger and cargo revenue/ tonne- kilometers)	4.60	4.79	5.20	5.27	5.38
Unit cost (operating expenses/ATK)	2.86	3.16	3.70	3.57	4.88

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our Company involves a number of risks, some of which may be special or significantly different from risks that are normally associated with an investment in a U.S. company. You should carefully consider the following information about the risks in investing in our Company, along with the other information presented in this Annual Report.

Significant losses in 2008

We incurred significant losses in 2008, which materially weakened our financial condition. Although we earned an operating profit of RMB128 million in 2007, our operating loss in 2008 was approximately RMB15.1 billion, which included losses on fair value movements amounting to approximately RMB6,256 million on our aviation fuel hedging contracts. Our net cash generated from operations decreased by approximately RMB225 million from RMB3,080 million in 2007 to RMB2,856 million in 2008. We cannot assure you that we will not continue to experience significant losses in the future. As a result of our weakened financial condition, we may be more vulnerable to the impact of unexpected events, the deterioration of the global and domestic economies and any significant increase in competition.

Impairments for Property Plant and Equipment

In accordance with the relevant accounting standards, we are required to test certain of our intangible assets for impairment on an annual basis, or more frequently if conditions indicate that an impairment may have occurred. In addition, we are required to test certain of our tangible assets for impairment if conditions indicate that an impairment may have occurred. In view of the decline in demand on the air transportation market under the current economic environment, we performed an impairment test on property, plant and equipment as of December 31, 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft model and the related equipment which reflects their relatively lower operational efficiency and management's intention to retire these aircraft in the near future. In determining the recoverable amounts of the related assets, our management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values. After assessing the fair value less costs to sell as at the balance sheet date which was primarily determined by reference to estimated market value, we made an additional impairment loss of RMB235 million against certain aircraft and related flight equipment which have been classified as "non-current assets held for sale".

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

Liquidity

We have substantial debts, and will continue to have substantial debts in the future. In addition, we added, in 2008, a total of 19 aircraft to our fleet, including one A320 purchased by us and seven A320, five A321, one A330-200, three A330-300, one B737-700 and one B737-800 held under finance leases. In addition, we surrendered the lease of two aircraft, including one B737-300 and one B747F. See the section headed "Item 4. Information on the Company — Property, Plant and Equipment — Fleet". As of December 31, 2008, our total outstanding debt was RMB85,691 million. As of the same date, our current liabilities exceeded our current assets by RMB43,458 million. Short-term bank loans outstanding totaled RMB19,474 million as of December 31, 2008. Our substantial indebtedness and other obligations could make us more vulnerable to economic recessions and reduce our flexibility in responding to increased competition and changing business and economic conditions.

Moreover, we are largely dependent upon cash flows generated from our operations and external financing (including short-term bank loans) to meet our debt repayment obligations and working capital requirements, which may reduce the funds available for other business purposes. If our operating cash flow is materially and adversely affected by factors such as increased competition, a significant decrease in demand for our services, or a significant increase in jet fuel prices, our liquidity would be materially and adversely affected. We have arranged financing with domestic and foreign-funded banks in China as necessary to meet our working capital requirements. We have also tried to ensure our liquidity by structuring a substantial portion of our short-term bank loans to be rolled over upon maturity. These efforts, however, may ultimately prove insufficient. Our ability to obtain financing may be affected by our financial position and leverage and our credit rating, as well as by prevailing economic conditions and the cost of financing in general. If we are unable to obtain adequate financing for our capital requirements, our liquidity and operations would be materially and adversely affected.

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Future Financing Requirements

We require significant amounts of external financing to meet our capital commitments for adding and upgrading aircraft and flight equipment and for other business expansion needs. We generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained, sometimes with the assistance of the CAAC, guarantees from Bank of China and other Chinese banks in respect of payments under our foreign loan and capital lease obligations. However, we cannot assure you that we will be able to continue to obtain bank guarantees in the future. The unavailability of guarantees from Bank of China or other acceptable banks or the increased cost of such guarantees may materially and adversely affect our ability to borrow internationally or enter into international aircraft lease financings on acceptable terms. The current economic recession has severely disrupted the global capital markets, resulting in a diminished availability of financing and higher cost for financing that is obtainable. Our ability to obtain financing may also be impaired by our financial position and leverage and our credit rating. If we were unable to obtain financing for a significant portion of our capital requirements, our ability to acquire new aircraft or expand our operations may be impaired. We have and in the future will likely continue to have substantial debts. As a result, the interest cost associated with these debts might impair our future profitability and cause our earnings to be subject to a higher degree of volatility.

Weaker Demand for Air Travel as a Result of the Global Economic Recession

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the domestic and global economies. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. As a result of the severe global economic downturn, we experienced significantly weaker demand for air travel, especially internationally, in the fourth quarter of 2008 and into 2009. To offset the decline in passenger volume, we reduced our international flights and reallocated our capacity by focusing more on the domestic market. Demand for air travel could continue to fall if the global economic recession continues, and overall demand may fall much lower than we are able prudently to reduce capacity. Continuation or worsening of the current global recession may lead us to further reduce domestic or international capacity, which would have a material adverse effect on our revenues, results of operations and liquidity.

In addition, the airline industry is characterized by a high degree of operating leverage. Due to high fixed costs, including payments made in connection with aircraft leases, the expenses relating to the operation of any given flight do not vary proportionately with the number of passengers carried, while revenues generated from a particular flight are directly related to the number of passengers carried and the fare structure of the flight. Accordingly, a decrease in revenues may result in a proportionately higher decrease in profits.

Fuel Supply and Costs

The availability and cost of aviation fuel has a significant impact on our financial condition and results of operations. In the past, jet fuel shortages have occurred in China and, on limited occasions, required us to delay or cancel flights. Although jet fuel shortages have not occurred since the end of 1993, we cannot assure you that jet fuel shortages will not occur in the future. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world, Organization of Petroleum Exporting Countries policies, the rapid growth of the economies in China and India, the levels of inventory carried by industries, the amounts of reserves built by governments, disruptions to production and refining facilities and weather conditions. These and other factors that impact the global supply and demand for aircraft fuel may affect our financial performance due to its sensitivity to fuel prices.

Fuel costs constitute a significant portion of our operating costs and, in 2008, accounted for approximately 32.5% of our operating expenses. Between 2007 and 2008, our fuel expenses rose by 22.3%, partially as a result of increased weighted average domestic and international fuel prices. Between 2007 and 2008, the weighted average fuel prices that we paid increased by approximately 28.0%. Due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased fuel costs we may encounter in the future. Any jet fuel shortages or any increase in domestic or international jet fuel prices may materially and adversely affect our financial condition and results of operations.

Fuel Hedging Arrangements

As a form of protection against potential spikes in fuel price, we from time to time hedge a portion of our future fuel requirements through various financial derivative instruments to lock in fuel costs within a hedged price range. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant declines in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. As of December 31, 2008, the loss of fair value of the aviation fuel hedging contracts entered into by our Company has contributed to the loss incurred by our Company in 2008 in the amount of approximately RMB6,256 million. In addition, where we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs.

Intensified Competition

We face intense competition in each of the domestic, regional and international markets that we serve. In our domestic markets, we compete against smaller domestic airline companies that operate with costs that are lower than ours. In our regional and international markets, we compete against international airline companies that have significantly longer operating histories, greater name recognition, more resources or larger sales networks than we do, or utilize more developed reservation systems than ours. See the section headed “Item 4. Information on the Company — Business Overview — Competition” for more details. The public’s perception of the safety records of Chinese airlines also materially and adversely affects our ability to compete against our international competitors. In response to competition, we have, from time to time in the past, lowered our airfares for certain of our routes, and we may be required to do the same in the future. Increased competition and pricing pressures from competition may have a material adverse effect on our financial condition and results of operations.

Government Regulation

The Chinese civil aviation industry is subject to a high degree of regulation by the CAAC. Regulatory policies issued or implemented by the CAAC encompass virtually every aspect of airline operations, including, among other things:

— route allocation;

— pricing of domestic airfares;

— the administration of air traffic control systems and certain airports; and

— aircraft registration and aircraft airworthiness certification.

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

Government Ownership and Control of Our Company

Most of the major airline companies in China are currently majority-owned either by the central government of China or by provincial or municipal governments in China. CEA Holding currently holds 59.67% of our Company’s equity interests on behalf of the PRC Government. As a result, CEA Holding could potentially elect the majority of our Board of Directors and otherwise be able to control us. CEA Holding also has sufficient voting control to effect transactions without the concurrence of our minority shareholders. The interests of the PRC Government as the ultimate controlling person of our Company and most of the other major Chinese airlines could conflict with the interests of our minority shareholders. Although the CAAC currently has a policy of equal treatment of all Chinese airlines, we cannot assure you that the CAAC will not favor other Chinese airlines over our Company.

On December 10, 2008, CEA Holding entered into the A Share Subscription Agreement with our Company and on December 29, 2008, CEA Holding entered into a revised A Share Subscription Agreement. Pursuant to the revised A Share Subscription Agreement, CEA Holding will, at the subscription price of RMB3.87 per share, subscribe in cash for 1,437,375,000 new A Shares with a total subscription price of approximately RMB5,563 million. Simultaneously with the entering into of the A Share Subscription Agreement and the revised A Share Subscription Agreement, CES Global Holdings (Hong Kong) Limited ("CES Global"), a wholly owned subsidiary of CEA Holding, entered into the H Share Subscription Agreement and the revised H Share Subscription Agreement with our Company. Pursuant to the revised H Share Subscription Agreement, CES Global will, at the subscription price of RMB1.0 per share, subscribe in cash for 1,437,375,000 new H Shares with a total subscription price of approximately RMB1,437 million. Immediately after completion of both subscriptions, CEA Holding will, directly and indirectly hold in aggregate 5,778,750,000 shares in our Company (including 4,341,375,000 A Shares and 1,437,375,000 H Shares), representing approximately 74.64% of the enlarged total share capital of our Company. On February 26, 2009, we convened a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders, at which special resolutions were passed to approve both the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to CEA Holding and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global.

On May 22, 2009, we received an approval issued by CSRC dated May 19, 2009 in relation to our proposed issue of 1,437,375,000 new H Shares at a price of RMB1.00 per share to CES Global. Pending the final approval to be issued by CSRC in relation to the issuance of the new A Shares, we will arrange for the new H Shares and the new A Shares to be issued.

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

— mergers or other business combinations;

— the acquisition or disposition of assets;

— the issuance of any additional shares or other equity securities;

— the timing and amount of dividend payments; and

— the management of our Company.

Insurance Coverage and Cost

As a result of the events of September 11, 2001, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events, or war-risk coverage. At the same time, they have significantly increased the premiums for such coverage, as well as for aviation insurance in general. We renew our insurance policies on a yearly basis and are currently insured through November 30, 2009. However, if the insurance carriers further reduce the amount of insurance coverage available or increase the premium for such coverage when we renew our insurance coverage, our financial condition and results of operations may be materially and adversely affected. In addition, although there was no major change to our insurance arrangements in 2008, the premium for our insurance coverage of aircraft hull deductibles increased by 19.7% at renewal due to the impact from downturn of global economic crisis.

Direct Air Link between Mainland China and Taiwan

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 regular direct flights per week with effect from 2009 between 16 cities in mainland China and eight cities in Taiwan. The two sides also agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. While we have currently been allocated 24 of the approximately 270 regular direct flights per week and are one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.

Chinese Aviation Infrastructure Limitations and Safety

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

Related Party Transactions; Conflict of Interests

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

Acquisitions

We may expand our business through acquisitions of airline companies or airline-related businesses, such as our acquisition of an equity interest in CEA Wuhan and the acquisition of certain selected assets and liabilities relating to the aviation businesses of CEA Northwest and CEA Yunnan. See “Item 4. Information on the Company” for details. Such acquisitions involve uncertainties and risks, including the following:

— difficulty with integrating the assets and operations of the acquired airline companies or airline-related businesses, including their employees, corporate cultures, managerial systems, processes and procedures and management information systems and services;

— failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airline companies or airline-related businesses;

— difficulty with exercising control and supervision over the newly acquired operations; and

— increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airline companies or airline-related businesses.

If we are unable to manage or integrate the newly acquired airlines or airline-related businesses successfully without substantial expense, delay or other operational or financial problems, we may be unable to achieve the objectives or anticipated synergies of such acquisitions and such acquisitions may adversely impact the operations and financial results of our existing businesses.

Limitation on Foreign Ownership

The current CAAC policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a Chinese airline company. At present, approximately 32.2% of our total outstanding shares are held by non-Chinese residents and Hong Kong, Macau or Taiwan residents (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). As a result, our access to international equity capital markets may be limited. This restriction may also limit the opportunities available to our Company to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. We cannot assure you that the CAAC will increase these limits in the near future or at all.

Adverse Public Health Epidemics or Pandemics

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of China and other countries where we do business. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volume and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have recently encountered incidents of the H5N1 strain of bird flu, or avian flu, many of which have resulted in fatalities. In addition, outbreaks of and sporadic human infection with influenza A (H1N1), a highly contagious acute respiratory disease, have been reported in Mexico and an increasing number of countries around the world, some cases resulting in fatalities. We are unable to predict the potential impact, if any, that the outbreak of influenza A (H1N1) or any other serious contagious disease or another outbreak of SARS or avian flu may have on our business. Any future outbreak of SARS, avian flu, influenza A (H1N1) or similar adverse public health developments may, among other things, lead to travel restrictions and reduced levels of economic activity in the affected areas, which may in turn significantly reduce demand for our services and have a material adverse effect on our financial condition and results of operations.

Changes in the Economic Policies of the PRC Government

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

Convertibility of Renminbi

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

SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.

Fluctuations in Exchange Rates

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the domestic and international economies, political conditions and the supply and demand of currency. On July 21, 2005, the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an appreciation in the value of the Renminbi against the U.S. dollar of approximately 3.4% in 2006, 6.9% in 2007 and 7.0% in 2008. In May 2007, the PRC Government widened the daily trading band of the Renminbi against a basket of certain foreign currencies from 0.3% to 0.5%. It is possible that the PRC Government could adopt a more flexible currency policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency.

We operate our business in many countries and territories. We generate revenue in different currencies, and our foreign currency liabilities at the end of the period are typically much higher than our foreign currency assets. Our purchases and leases of aircraft are mainly priced and settled in currencies such as U.S. dollars. Fluctuations in exchange rates will affect our costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. Where fluctuations in exchange rates are significant, the exchange losses resulting from the translation of foreign currency denominated liabilities would be greater and would affect the profitability and development of our Company.

Withdrawal of, or Changes to, Tax Incentives

Prior to January 1, 2008, except for a number of preferential tax treatment schemes available to various enterprises, industries and locations, business enterprises in China were subject to an enterprise income tax rate of 33% under the relevant PRC Enterprise Income Tax Law. On March 16, 2007, China passed a new enterprise income tax law, or the EIT Law, which took effect on January 1, 2008. The EIT Law imposes a uniform income tax rate of 25% for domestic enterprises and foreign invested enterprises. Business enterprises enjoying preferential tax treatment that was extended for a fixed term prior to January 1, 2008 will still be entitled to such treatment until such fixed term expires. Certain of our subsidiaries are entitled to preferential tax treatment, allowing us to enjoy a lower effective tax rate that would not otherwise be available to us. To the extent that there are any withdrawals of, or changes in, our preferential tax treatment, or increases in the applicable effective tax rate, our tax liability may increase correspondingly.

Uncertainties Embodied in the PRC Legal System

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protection afforded to foreign investment in China. However, the interpretation and enforcement of some of these laws, regulations and other legal requirements involve uncertainties that may limit the legal protection available to you.

Legal Proceedings

On November 21, 2004, a CRJ-200 Bombadier-supplied aircraft then owned and operated by China Eastern Air Yunnan Company, or CEA Yunnan, crashed shortly after leaving Baotou city in the Inner Mongolia Autonomous Region. All 53 people aboard died in the aircraft accident. In 2005, family members of the deceased sued, among other defendants, our Company in a U.S. court for compensation, the amount of which had not been determined. On July 5, 2007, pursuant to several conditions with which our Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non conveniens for the purpose of permitting proceedings in the PRC. Moreover, the Superior Court scheduled and held a status conference on December 10, 2007, and intends to schedule subsequent status conferences every six months until the litigation in China is resolved or until the Superior Court determines otherwise. On February 20, 2008, the plaintiff filed a motion with the Superior Court of the State of California to lift the stay. The motion was denied by the Superior Court on May 6, 2008. Subsequently, the plaintiff filed the second motion with the Superior Court to lift the stay on July 10, 2008. On August 27, 2008, the Superior Court of the State of California rejected the motion of the plaintiff again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an option on February 26, 2009, dismissing the appeal of the plaintiff and affirming the original order. On March 16, 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and we have not received any notices or official summons from the court in Beijing as of May 31, 2009. We cannot assure you that the court will rule in favor of our Company in procedure or substance of the litigation.

Suspension and Reduction of Certain Flights in Yunnan, China

We experienced a suspension and reduction in our flight services in 2008 due to unforeseeable circumstances, including actions taken by our pilots which were beyond our anticipation or control. Between March 31, 2008 and April 1, 2008, 21 intra-provincial flights operated by the Yunnan branch of our Company took off and, without warning, subsequently returned to their departure airports without reaching their intended destinations due to various reasons determined by the CAAC Southwest Bureau, which included pilot mishandling. Pursuant to its investigation into the incident, the CAAC Southwest Bureau imposed a penalty on our Company of RMB1.5 million and suspended our right to operate flights for certain routes and reduced a number of our other flights in the Yunnan region. Although the suspension of our right to operate flights for certain routes has been lifted and the number of our other flights in the Yunnan region which had been reduced have resumed since October 2008, the occurrence of similar actions or events may be difficult to predict or foresee and may disrupt our business operations as well as result in administrative penalties, loss of revenues and harm to our reputation. See “Item 4. Information on the Company - Business Overview”.

Failure or Disruption of our Computer, Communications, Flight Equipment or other Technology Systems

We rely heavily on computer, communications, flight equipment and other technology systems to operate our business and enhance customer service. Substantially all of our tickets are issued to passengers as electronic tickets, and we depend on our computerized reservation system to be able to issue, track and accept these electronic tickets. In addition, we rely on other automated systems for crew scheduling, flight dispatch and other operational needs. These systems could be disrupted due to various events, including natural disasters, power failures, terrorist attacks, equipment failures, software failures, computer viruses, and other events beyond our control. We cannot guarantee that the measures we have taken to reduce the risk of some of these potential disruptions are adequate to prevent disruptions or failures of these systems. Any substantial or repeated failure or disruption in or breach of these systems could result in the loss of important data and could have an adverse impact on our business operations, profitability, reputation and customer services.

Item 4. Information on the Company

A. History and Development of the Company

Our registered office is located at 66 Airport Street, Pudong International Airport, Shanghai, China, 201202. Our principal executive office is located at 2550 Hongqiao Road, Hongqiao Airport, Shanghai, China, 200335. The telephone number of our principal executive office is (86-21) 6268-6268. We currently do not have an agent for service of process in the United States.

Our Company was established on April 14, 1995 under the laws of China as a company limited by shares in connection with the restructuring of our predecessor and our initial public offering. Our predecessor was one of the six original airlines established in 1988 as part of the decentralization of the airline industry in China undertaken in connection with China’s overall economic reform efforts. Prior to 1988, the CAAC was responsible for all aspects of civil aviation in China, including the regulation and operation of China’s airlines and airports. In connection with our initial public offering, our predecessor was restructured into two separate legal entities, our Company and EA Group. According to the restructuring arrangement, by operation of law, our Company succeeded to substantially all of the assets and liabilities relating to the airline business of our predecessor. EA Group succeeded to our predecessor’s assets and liabilities that do not directly relate to the airline operations and do not compete with our businesses. Assets transferred to EA Group included our predecessor’s equity interests in companies engaged in import and export, real estate, advertising, in-flight catering, tourism and certain other businesses. In connection with the restructuring, we entered into various agreements with EA Group and its subsidiaries for the provision of certain services to our

Company. CEA Holding assumed the rights and liabilities of EA Group under these agreements after it was formed by merging EA Group, Yunnan Airlines Company and China Northwest Airlines Company in October 2002. See “Item 7. Major Shareholders and Related Party Transactions” for more details. In 2008, our Company’s total revenue from core operations accounted for approximately 94.0% of CEA Holding’s total revenue. The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of May 31, 2009:

In February 1997, we completed our initial public offering of 1,566,950,000 ordinary H Shares, par value RMB1.00 per share, and listed our ordinary H Shares on The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange, and American Depositary Shares, or ADSs, representing our H Shares, on the New York Stock Exchange. In October 1997, we completed a public offering of 300,000,000 new ordinary domestic shares in the form of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. Following the A Share offering, EA Group continued to own 3,000,000,000 ordinary domestic shares, which represent 90.91% of our total ordinary domestic shares. As of December 31, 2006, EA Group owned 61.64% of our issued and outstanding share capital. H Shares are our ordinary shares listed on the Hong Kong Stock Exchange, and A Shares are our ordinary shares listed on the Shanghai Stock Exchange. Our H Shares and A Shares are identical in respect of all rights and preferences, except that the listed A Shares may only be held by Chinese domestic investors and certain qualified foreign institutional investors. In addition, dividends on the A Shares are payable in Renminbi.

Since our initial public offering, we have expanded our operations through acquisitions and joint ventures. In July 1998, our Company and China Ocean Shipping (Group) Company jointly established China Cargo Airlines Co., Ltd., which specializes in the air freight business. Our total investment in this joint venture was approximately RMB350 million, representing 70% of the equity interest of China Cargo Airlines Co., Ltd. In addition, we purchased from EA Group the assets and liabilities relating to airline operations of China General Aviation Company, for approximately RMB88 million in November 1999. China General Aviation Company was based in Shanxi Province in China and served primarily the northern region of China. Moreover, we completed our acquisition of Air Great Wall in June 2001 and established our Ningbo Branch following the acquisition. Air Great Wall was based in Ningbo, Zhejiang Province in China and served primarily the southeastern region of China.

In May 2002, our Company, jointly with Shanghai Civil Aviation Eastern China Kaiya System Integration Co., Ltd., established Shanghai Eastern Airlines Investment Co., Ltd., or SEAI. We hold a 99% equity interest in SEAI. SEAI serves as one of the investment vehicles of our Company for our investments in other industrial projects and provides consulting services. In August 2002, our Company, jointly with Wuhan Municipal State-owned Assets Management Committee Office and two other independent third parties, established China Eastern Airlines Wuhan Limited, or CEA Wuhan, in which our Company held a 40% equity interest. CEA Wuhan's operating results were consolidated with ours from January 2006, when we obtained control of CEA Wuhan. In March 2006, we completed our acquisition of a 38% equity interest and a 18% equity interest in CEA Wuhan from Wuhan Municipal State-owned Assets Supervision and Administration Committee and Shanghai Junyao Aviation Investment Company Limited, respectively, for an aggregate consideration of approximately RMB418 million. As a result, our equity interest in CEA Wuhan has increased to 96%. CEA Wuhan primarily serves the market in Central China. We also entered into an agreement with Rockwell Collins International Inc. of the United States to establish a joint venture avionics maintenance service company in China in September 2002. Moreover, in November 2002, our Company, jointly with China Aircraft Services Limited, established Shanghai Eastern Aircraft Maintenance Limited, in which our Company holds a 60% equity interest. In order to expand our Company's operations in Jiangsu Province of China, we increased our investment in China Eastern Airlines Jiangsu Co., Ltd., or Eastern Jiangsu, in December 2002, together with other shareholders of Eastern Jiangsu. In 2004, our Company contributed additional capital of approximately RMB408 million to Eastern Jiangsu. As a result, our equity interest in Eastern Jiangsu increased from 55% to 63%.

On March 10, 2003, we entered into a joint venture agreement with Singapore Technologies Aerospace Ltd. to establish Shanghai Technologies Aerospace Company Limited, or STA, a Sino-foreign joint venture limited liability company established under the laws of the PRC. The registered capital of STA is US$73 million with a total investment of US$98 million. Pursuant to the joint venture agreement, our Company shall make an in-kind capital contribution of US$37.23 million (which includes but is not limited to flight equipment and land use rights) in installments to STA. Our Company owns a 51% equity interest in STA. STA is primarily engaged in the provision of commercial aircraft maintenance, repair and overhaul services. STA commenced operations in late 2004.

In April 2003, we entered into a share transfer agreement with CEA Holding, pursuant to which we have acquired from CEA Holding a 45% equity interest in Eastern Aviation Import and Export Company, or EAIEC, for a consideration of approximately RMB44 million. EAIEC was a wholly-owned subsidiary of CEA Holding prior to the transaction. Under the share transfer agreement, our Company and CEA Holding each undertakes to the other party that it will not establish any other entity engaging in any business similar in nature or scope to the business conducted by EAIEC.

In December 2003, we also entered into a joint venture agreement with CEA Holding to establish China Eastern Air Catering Investment Company Ltd., or CEA Catering. The registered capital of CEA Catering is RMB350 million. Pursuant to the joint venture agreement, CEA Holding and our Company made capital contributions of approximately RMB192.5 million and RMB157.5 million, respectively. As a result, CEA Holding and our Company hold a 55% and a 45% equity interest in CEA Catering, respectively. CEA Catering is primarily engaged in the business of providing air and ground catering services, food and beverage supplies and other related services.

In addition, also in December 2003, we entered into an equity transfer and capital increase agreement with CEA Holding and Shanghai Eastern Development Corporation Limited, or SEDC, pursuant to which our Company acquired 10% of SEDC's then equity interest and 35% of CEA Holding's then equity interest in Shanghai Dong Mei Aviation Travel Corporation Limited, a company that is primarily engaged in the business of selling air tickets, hotel reservation, travel agency and other related services. After the transaction, our Company holds a 45% equity interest in Shanghai Dong Mei. Our aggregate investment in Shanghai Dong Mei was approximately RMB14.9 million.

On February 18, 2004, we entered into a joint venture agreement with CEA Holding to establish China Eastern Real Estate Investment Co., Ltd., or CEA Real Estate, a limited liability company established under the laws of the PRC. The registered capital of CEA Real Estate is RMB100 million. Pursuant to the joint venture agreement, our Company has made its capital contribution of RMB5 million in cash. As a result, our Company owns a 5% equity interest in CEA Real Estate. CEA Real Estate is primarily engaged in the real estate business, including the development and sales of commercial premises and property leasing in Shanghai, China.

On August 18, 2004, we entered into a joint venture agreement with China Ocean Shipping (Group) Company and China Cargo Airlines Co., Ltd. to establish Shanghai Eastern Logistics Co., Ltd., or Eastern Logistics, a limited liability company established under the laws of the PRC. The registered capital of Eastern Logistics is RMB200 million. Pursuant to the joint venture agreement, our Company has made its capital contribution of RMB138.6 million in cash to Eastern Logistics. Our Company, directly and indirectly, owns a 70% equity interest in Eastern Logistics. Eastern Logistics is primarily engaged in the provision of cargo logistics services. Eastern Logistics commenced operations after it obtained its business license from the relevant government authority on August 23, 2004.

Pursuant to the CAAC's airline industry restructuring plan, EA Group merged with Yunnan Airlines Company and China Northwest Airlines Company and formed CEA Holding in October 2002. Yunnan Airlines Company and China Northwest Airlines Company were restructured as wholly-owned subsidiaries of CEA Holding after the merger and renamed as China Eastern Air Yunnan Company, or CEA Yunnan, and China Eastern Air Northwest Company, or CEA Northwest, respectively. CEA Northwest is based in Xi'an, Shaanxi Province in China with approximately 30 jet aircraft and serves primarily the western region of China. CEA Yunnan is based in Kunming, Yunnan Province in China with approximately 26 jet aircraft and serves primarily the southwestern region of China. The airline operations conducted by CEA Yunnan and CEA Northwest previously competed with our Company, in particular, on the Shanghai-Wenzhou route, Shanghai-Harbin route, Shanghai-Qingdao route, Shanghai-Changsha route, Changchun-Kunming route, Changsha-Ningbo route, Changsha-Kunming route and Changsha-Nanjing route.

In order to further expand our business and enhance our market competitiveness, we acquired from CEA Holding certain selected assets and liabilities relating to the aviation businesses of CEA Yunnan and CEA Northwest pursuant to a conditional assets transfer agreement, or Acquisition Agreement, entered into by our Company, CEA Holding, CEA Yunnan and CEA Northwest on May 12, 2005. The certain selected assets acquired by our Company included aircraft, engines and aviation equipment and facilities, certain employees and operating contracts, and other fixed and current assets (whether owned or leased assets). We also assumed aggregate debts of RMB9,421 million. We expressly did not assume certain legal liabilities. Following the completion of the acquisitions of these assets and liabilities in June 2005, our Company assumed and took over the aviation operations and businesses previously carried out by CEA Yunnan and CEA Northwest in accordance with the Acquisition Agreement. The air routes of CEA Yunnan and CEA Northwest were also injected into our Company with such assets and liabilities. The total consideration paid by our Company under the Acquisition Agreement was approximately RMB640 million in cash.

Under the Acquisition Agreement, each of CEA Holding, CEA Northwest and CEA Yunnan has undertaken that at any time after completion of the Acquisition Agreement, it will not, and will procure its respective subsidiaries and associated companies (including members of CEA Holding) not to, carry out, engage in or otherwise become involved or interested in any business which competes or may compete, either directly or indirectly, with our Company's aviation business. The undertaking is not made for any definite period.

On March 14, 2006, we entered into an official sponsorship agreement with the Bureau of 2010 Expo Shanghai (the "Bureau"), which designated our Company as the exclusive airline passenger carrier in China to sponsor the 2010 Shanghai Expo. Pursuant to the agreement, we are entitled to a number of rights, including the use of the Bureau's logos and trademarks and the slogan "Better City, Better Life", and priority to purchase advertising space at the Expo site. We are also able to enjoy the privileges of being a market development participant of the World Expo. The total sponsorship fee under the agreement is RMB320 million, of which RMB160 million will be paid in cash in installments and the remaining RMB160 million will be settled by value-in-kind services. See Note 18(b) to our audited consolidated financial statements for details. We believe that, as the designated partner airline for World Expo 2010 Shanghai and with our core operations in Shanghai, one of China's principal air transportation hubs, we are well-positioned to enhance our brand image and overall operations.

On December 27, 2006, our Board of Directors passed a resolution to dispose of certain aged aircraft and related flight equipment in the forthcoming 12-months in light of the poor market reception and the high maintenance cost of these aircraft. These aircraft together with the related flight equipment and spare parts have been classified as non-current assets held for sale as of December 31, 2006. Prior to the reclassification, a valuation deficit of RMB1,035 million for these assets was recognized in the income statement as a result of the asset revaluation. For more details, see Note 40 to our audited consolidated financial statements.

On August 16, 2007, we established China Eastern Airlines Gifting Co., Ltd. , a limited liability company established under the laws of the PRC. The registered capital of China Eastern Airlines Gifting Co., Ltd. is RMB50 million. Our

Company directly owns a 100% equity interest in China Eastern Airlines Gifting Co., Ltd. China Eastern Airlines Gifting Co., Ltd., which commenced operations after obtaining its business license from the relevant government authority on August 17, 2007 and is primarily engaged in the provision of marketing services.

On September 2, 2007, we entered into a non-binding agreement with Singapore Airlines Limited (“SIA”) and Lentor Investments Pte. Ltd (“Temasek”) for a proposed investment by SIA and Temasek in our Company through a subscription for new H shares, subject to legally binding documents to be entered into at a later date. SIA is primarily engaged in providing air transportation services on a global basis. Temasek, an indirect, wholly-owned subsidiary of Temasek Holdings (Private) Limited, is an investment company. On November 9, 2007, we entered into several agreements with SIA and Temasek that provided detailed terms of the investment, including: (1) the Subscription Agreement between SIA, Temasek and our Company in which SIA and Temasek would subscribe for new H shares that would represent approximately 25% and 13%, respectively, of our existing H shares for an aggregate consideration of approximately US$923.3 million (HK$7.2 billion); (2) the CEA Holding Subscription Agreement between CEA Holding and our Company in which CEA Holding would subscribe for new H shares for approximately 23% of existing H shares (in addition to their current holdings) for an aggregate consideration of US$538.6 million (HK$4.2 billion); (3) the Cooperation Agreement between SIA and our Company in which the key areas of strategic alliance and cooperation between the two parties are described, subject to termination at the option of either party; and (4) the Personnel Secondment Agreement between SIA and our Company in which the terms for the secondment of SIA personnel to executive positions within our Company are detailed, subject to termination upon the termination of the Cooperation Agreement. As shareholders’ approval of the issuance of new H shares was a condition precedent in both the Subscription Agreement and the CEA Holding Subscription Agreement, we convened a general meeting on January 8, 2008 for shareholders to vote on the pending resolutions. We did not obtain shareholder approval at that meeting for the issuance of new H shares and currently have no plans to attempt another shareholder vote. Pursuant to the terms of the agreements, the Subscription Agreement and CEA Holding Subscription Agreement expired on August 9, 2008 because the conditions precedent were not fulfilled.

On November 16, 2007, our Company, CEA Holding and East China Care System Co., Ltd. entered into an equity transfer agreement regarding our interest in China Eastern Air Investment Company Limited. Our Company agreed to dispose of our entire interest of 98.8% in China Eastern Air Investment Company Limited for the consideration of RMB461.9 million, while East China Care System Co., Ltd. also agreed to dispose of its entire 1.2% interest in China Eastern Air Investment Company Limited for the consideration of RMB5.7 million.

On November 6, 2007, we entered into a joint venture with United Technologies Corp., or UTC, to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd., or Pratt & Whitney, for the purpose of performing maintenance and repairs on aircraft engines. Our Company and UTC contributed US$20,145,000 and US$19,355,000, respectively, to the registered capital and holds 51% and 49%, respectively, of the equity interests in the joint venture.

The table below sets forth details of our operating fleet since 2005 (including our acquisition or assumption of ownership or leases of 60 aircraft as part of our acquisition of certain selected assets and liabilities relating to the aviation businesses of CEA Northwest and CEA Yunnan in 2005) and planned additions for the years 2009 and 2010:

	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	Planned Additions	
	2005		2006		2007		2008		2009	2010
A340-600	5	—	5	—	5	—	5	—	—	—
A340-300	5	—	5	—	5	—	5	—	—	—
A330-300	—	—	—	7	5	7	8	7	—	—
A330-200	—	—	—	3	1	3	2	3	—	—

A300-600	10	3	9	—	8	—	7	—	—	—
A310	3	—	—	—	—	—	—	—	—	—
A321	4	—	6	—	10	—	15	—	—	—
A320	37	26	37	26	39	26	47	26	10	14
A319	—	10	3	10	5	10	5	10	—	—
MD-90	9	—	9	—	9	—	9	—	—	—
MD-82	—	3	—	—	—	—	—	—	—	—
B737NG	—	—	—	—	—	—	—	—	—	—
B737-800	—	3	—	7	—	7	—	8	3	2
B737-700	8	14	14	15	16	15	17	15	7	4
B737-300	13	6	13	10	16	7	16	6	—	—
B767-300	3	—	3	—	3	—	3	—	—	—
B787	—	—	—	—	—	—	—	—	—	4
EMB145	3	—	7	—	10	—	10	—	—	—
CRJ-200	5	—	5	—	5	—	5	—	—	—
A300F	—	2	1	1	2	—	3	—	—	—

	No. of Aircraft Owned and under Finance Leases 2005	No. of Aircraft under Operating Leases 2005	No. of Aircraft Owned and under Finance Leases 2006	No. of Aircraft under Operating Leases 2006	No. of Aircraft Owned and under Finance Leases 2007	No. of Aircraft under Operating Leases 2007	No. of Aircraft Owned and under Finance Leases 2008	No. of Aircraft under Operating Leases 2008	Planned Additions 2009	Planned Additions 2010
B747F	—	2	1	2	2	1	2	—	—	—
MD-11F	6	—	6	—	6	—	—	6	—	—
Total		180		205		223	159	81	20	24

B. Business Overview

Our Company was one of the three largest air carriers in China in terms of revenue tonne-kilometers and number of passengers carried in 2008, and is the primary air carrier serving Shanghai, China's eastern gateway and largest city. As of December 31, 2008, we accounted for approximately 19.3% of the total commercial air traffic (as measured in revenue tonne-kilometers, or RTKs) handled by Chinese airlines. We operate primarily from Shanghai's Hongqiao Airport and Pudong International Airport. In 2008, in terms of flight take-off and landing statistics, our flights accounted for 36.1% and 27.8% of all the flight traffic at Hongqiao Airport and Pudong International Airport, respectively. In 2008, we accounted for approximately 31.9% of the total passenger traffic volume and 17.5% of the total freight volume on routes to and from Shanghai. In 2008, we were awarded an "Excellence Award for Customers' Satisfaction" by the CAAC's Passengers' Rating of Civil Aviation Award for the fourth consecutive year.

Compared to 2007, our traffic volume (as measured in RTKs) decreased by 6.4% from 7,713.9 million in 2007 to 7,219.0 million in 2008. Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) decreased from 57,182.6 million in 2007 to 53,785.3 million in 2008, or 5.9%. Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) decreased by 7.4% from 2,614.1 million in 2007 to 2,420.1 million in 2008.

In May 2009, we received from CEA Holding, the controlling shareholder of our Company, notice of its intention to propose a resolution for the consideration and approval at our Annual General Meeting, which is scheduled to be held on June 13, 2009. In order to develop our business, CEA Holding proposed to expand the scope of business of our Company to include the "insurance agency services" and to amend the Articles of Association accordingly. According to the proposal, we may provide aircraft accident insurance agency services and travel insurance agency services once the resolution is passed, and may extend to other types of insurance agency services in the future.

Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the three years ended December 31, 2008:

	2006 (millions of RMB)	2007 (millions of RMB)	2008 (millions of RMB)
Traffic Revenues			
Passengers (1)	33,413	37,550	35,528
Cargo and mail (2)	2,843	3,114	3,316
Total Traffic Revenues	36,256	40,664	38,844

(1) includes revenues generated from cargo carried by passenger flights.
(2) excludes revenues generated from cargo carried by passenger flights.

In accordance with industry practice, we exclude cargo carried by passenger flights when calculating passenger related operating statistics, such as passenger traffic volume, passenger capacity, passenger yield and passenger load factor, and we include cargo carried by passenger flights when calculating cargo and mail related operating statistics, such as cargo and mail traffic volume, cargo and mail capacity, cargo and mail yield and cargo and mail load factor. However, for financial reporting purposes, we include cargo carried by passenger flights in our financial information when calculating passenger revenues and exclude cargo carried by passenger flights from our financial information when calculating cargo and mail revenues. As such, the trends in our financial information are not representative of the trends in our operating statistics. The discussion of our operating statistics below follows industry practice.

Passenger Operations

The following table sets forth certain passenger operating statistics of our Company by route for each of the three years ended December 31, 2007:

	2006	2007	2008
Passenger Traffic (in RPKs) (millions)	50,272	57,183	53,785
Domestic	31,272	35,492	35,352
Regional (Hong Kong, Macau and Taiwan)	3,522	3,305	3,058
International	15,478	18,386	15,375
Passenger Capacity (in Asks) (millions)	70,468	77,717	75,964
Domestic	42,687	46,166	47,588
Regional (Hong Kong, Macau and Taiwan)	5,554	5,075	4,562
International	22,227	26,476	23,814

	2006	2007	2008
Passenger Yield (RMB)	0.61	0.62	0.62
Domestic	0.61	0.61	0.61
Regional (Hong Kong, Macau and Taiwan)	0.71	0.65	0.64
International	0.58	0.61	0.66
Passenger Load Factor (%)	71.34	73.58	70.80
Domestic	73.26	76.88	74.29
Regional (Hong Kong, Macau and Taiwan)	63.39	65.12	67.02
International	69.64	69.44	64.56

The primary focus of our business is the provision of domestic, regional and international passenger airline services. We operated approximately 6,090 scheduled flights per week (excluding charter flights), serving a route network that covers 134 cities within China and abroad. In 2008, we operated a total of approximately 423 routes.

In 2008, we operated approximately 4,857 domestic flights per week on 332 routes. Our domestic routes generated approximately 63.9% of our passenger revenues. Our most heavily traveled domestic routes generally link Shanghai to the large commercial and business centers of China, such as Beijing, Guangzhou and Shenzhen.

We also operated approximately 390 flights per week on 16 routes to and from Hong Kong, originating from Shanghai and 16 other major cities in eastern, northern and western China. In addition, we operated approximately 10 flights per week on five routes between mainland China and Taiwan. Our regional routes accounted for approximately 5.9% of our passenger revenues in 2008.

In 2008, we operated approximately 838 international flights per week on 75 routes, serving 46 cities in 21 countries, primarily linking Shanghai to major cities in Asian and Southeast Asian countries (such as Japan, Korea, India, Singapore, Thailand and Bangladesh) and certain strategic locations in Europe, the United States and Australia. Since 2006, we gradually introduced several routes to further improve our route network, including Shanghai-Frankfurt, Shanghai-New York, Beijing-Seoul, Hangzhou-Qing Zhou, Weimar-Seoul, Shanghai-Maldives-Johannesburg, Hongqiao-Hamada, Beijing- Dalian-Okayama, Shanghai-Seoul-Bangkok and Hongqiao-Gimp. In 2008, we introduced the Shanghai-Copenhagen route. Revenues derived from our operations on international routes accounted for approximately 30.3% of our passenger revenues. Revenues derived from our operations on our 26 routes to and from Japan accounted for approximately 7.5% of our passenger revenues and approximately 24.6% of our international passenger revenues in 2008.

Following its investigation into an incident that involved the return of certain of our flights to their departure points without reaching their intended destination, the CAAC Southwest Bureau determined that certain flight returns were a result of pilot mishandling. As a result, two of our flight routes, namely the Kunming—Binna and Kunming—Dali routes, were suspended by the CAAC Southwest Bureau as of May 4, 2008. In addition, from April 26, 2008, the CAAC Southwest Bureau reduced the number of our Company's flights in the Yunnan region as follows: a decrease of six flights per day between Kunming and Lining, a decrease of six flights per day between Kunming and Zhenjiang, a decrease of two flights per day between Kunming and Manish, a decrease of two flights per day between Kunming and Linsang, a decrease of two flights per day between Kunming and Samoa and a decrease of two flights per day between Kunming and Wenham. Revenues derived from the suspended and reduced flights accounted for approximately 1.5% of our total revenue from principal operations in 2007. The Department of Transport of the CAAC issued a notice on October 6, 2008 to lift the suspension of our right to operate flights on the Kunming—Binna and Kunming—Dali routes and to resume the number of our flights in the Yunnan region which had been reduced, with effect from October 26, 2008. See "Item 3. Key Information – Risk Factors".

Most of our international and regional flights and a substantial portion of our domestic flights either originate or terminate in Shanghai, the central hub of our route network. Our operations in Shanghai are conducted primarily at Hongqiao Airport and Pudong International Airport. All of our international flights to or from Shanghai originate or terminate at Pudong International Airport. Pudong International Airport is a newly constructed airport and is approximately 30 kilometers from the central business district of Shanghai.

We operate most of our flights through our three hubs located in eastern, northwestern and southwestern China, namely Shanghai, Xi'an and Kunming, respectively. With Shanghai as our main hub and Xi'an and Kunming as our regional hubs, we believe that we will benefit from the level of development and growth opportunities in eastern, northern and western China as a whole by providing direct services between various cities in those regions and between those regions and other major cities in China. The provincial hubs also enable us to provide convenient connections for passengers on certain flights to and from Shanghai. Aircraft used for regional operations are mainly maintained by us on site at the hubs, and our sales offices are also based at each provincial hub. In addition, we will continue to develop our operations in Beijing and Guangzhou as our principal bases for northern China and southern China, respectively. We will also focus on major cities, such as Nanjing, Hangzhou, Qingdao and other coastal cities in eastern China, to help increase our market shares.

Cargo and Mail Operations

The following table sets forth certain cargo and mail operating statistics of our Company by route for each of the three years ended December 31, 2008:

	Year Ended December 31,		
	2006	2007	2008
Cargo and Mail Traffic (in RFTKs) (millions)	2,444	2,614	2,420
Domestic	575	609	622
Regional (Hong Kong, Macau and Taiwan)	141	118	111
International	1,728	1,888	1,687
Cargo and Mail Capacity (in AFTKs) (millions)	4,723	5,091	4,805
Domestic	1,060	1,228	1,375
Regional (Hong Kong, Macau and Taiwan)	351	274	278
International	3,313	3,589	3,152

Cargo and Mail Yield (RMB)	2.30	2.10	2.21
Domestic	0.87	0.97	1.26
Regional (Hong Kong, Macau and Taiwan)	5.24	4.49	4.42
International	2.54	2.31	2.42
Cargo and Mail Load Factor (%)	51.74	51.34	50.36
Domestic	54.24	49.55	45.21
Regional (Hong Kong, Macau and Taiwan)	40.24	42.91	39.79
International	52.16	52.60	53.54

We are required to obtain from the CAAC the right to carry passengers or cargo on any domestic or international route. Our cargo and mail business generally utilizes the same route network used by our passenger airline business. China Cargo Airlines Co., Ltd. also maintains 16 cargo routes. We carry cargo and mail on our freight aircraft as well as in available cargo space on our passenger aircraft. Our most significant cargo and mail routes are international routes.

The development of cargo operations is an important part of our Company's growth strategy. We have six MD-11F freight aircraft under operating leases for cargo and mail operations. We also have three Airbus A300F as well as two Boeing 747F freighters for our cargo operations in 2008.

Our Operations by Geographical Segment

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

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

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

The following table sets forth our revenues by geographical segment for each of the three years ended December 31, 2008:

	2006 (millions of RMB)	2007 (millions of RMB)	2008 (millions of RMB)
Domestic (the PRC, excluding Hong Kong)	20,901	24,134	24,333
Hong Kong (including Taiwan and Macau)	3,245	2,695	2,474
Japan	3,583	3,643	3,512
Other countries	9,828	12,062	10,753
Total	37,557	42,534	41,072

Regulation

The PRC Civil Aviation Law provides the framework for regulation of many important aspects of civil aviation activities in China, including:

— the administration of airports and air traffic control systems;

— aircraft registration and aircraft airworthiness certification;

— operational safety standards; and

— the liabilities of carriers.

The Chinese airline industry is also subject to a high degree of regulation by the CAAC. Regulations issued or implemented by the CAAC encompass virtually every aspect of airline operations, including route allocation, domestic airfare, licensing of pilots, operational safety standards, aircraft acquisition, aircraft airworthiness certification, fuel prices, standards for aircraft maintenance and air traffic control and standards for airport operations. Although China's airlines operate under the supervision and regulation of the CAAC, they are accorded a significant degree of operational autonomy. These areas of operational autonomy include:

— whether to apply for any route;

— the allocation of aircraft among routes;

— the airfare pricing for the international and Hong Kong passenger routes;

— the airfare pricing within the limit provided by the CAAC for the domestic passenger routes;

— the acquisition of aircraft and spare parts;

— the training and supervision of personnel; and

— many other areas of day-to-day operations.

Although we have generally been allocated adequate routes in the past to accommodate our expansion plans and other changes in our operations, those routes are subject to allocation and re-allocation in response to changes in governmental policies or otherwise at the discretion of the CAAC. Consequently, we cannot assure you that our route structure will be adequate to satisfy our expansion plans.

The CAAC has established regulatory policies intended to promote controlled growth of the Chinese airline industry. We believe those policies will be beneficial to the development of and prospects for the Chinese airline industry as a whole. Nevertheless, those regulatory policies could limit our flexibility to respond to changes in market conditions, competition or our cost structure. Moreover, while our Company generally benefits from regulatory policies that are beneficial to the airline industry in China as a whole, the implementation of specific regulatory policies may from time to time materially and adversely affect our business operations.

Because our Company provides services on international routes, we are also subject to a variety of bilateral civil air transport agreements between China and other countries. In addition, China is a contracting state as well as a permanent member of the International Civil Aviation Organization, an agency of the United Nations established in 1947 to assist in the planning and development of the international air transportation. The International Civil Aviation Organization establishes technical standards for the international airline industry. China is also a party to a number of other international aviation conventions. The business operations of our Company are also subject to those international aviation conventions.

Domestic Route Rights

Chinese airlines must obtain from the CAAC the right to carry passengers or cargo on any domestic route. The CAAC's policy on domestic route rights is to assign routes to the airline or airlines suitable for a particular route. The CAAC will take into account whether an applicant for a route is based at the point of origin or termination of a particular route. This policy benefits airlines, such as our Company, that have a hub located at each of the active air traffic centers in China. The CAAC also considers other factors that will make a particular airline suitable for an additional route, including the applicant's safety record, previous on-time performance and level of service and availability of aircraft and pilots. The CAAC will consider the market conditions applicable to any given route before such route is allocated to one or more airlines. Generally, the CAAC will permit additional airlines to service a route that is already being serviced only when there is strong demand for a particular route relative to the available supply. The CAAC's current general policy is to require the passenger load factor of one or two airlines on a particular route to reach a certain level before another carrier is permitted to commence operations on such route.

Hong Kong Route Rights

Hong Kong routes and the corresponding landing rights were formerly derived from the Sino-British air services agreement. In February 2000, the PRC Government, acting through the CAAC, and Hong Kong signed the Air Transportation Arrangement between mainland China and Hong Kong. The Air Transportation Arrangement provides for equal opportunity for airlines based in Hong Kong and mainland China. Competition from airlines based in Hong Kong increased after the execution of the Air Transportation Arrangement. The CAAC normally will not allocate an international route or a Hong Kong route to more than one domestic airline unless certain criteria, including minimum load factors on existing flights, are met. There is more than one Chinese airline company on certain of our Hong Kong routes.

The CAAC and the Economic Development and Labor Bureau of Hong Kong announced that they have reached an agreement in 2007 to further expand the Air Transportation Arrangement. This agreement will increase the routes between Hong Kong and mainland China to expand coverage to most major cities in mainland China. The capacity limits for passenger and/or cargo services on most routes will also be gradually lifted. Beginning from the winter of 2007, each side designated three airline companies to operate passenger and/or cargo flights and another airline company to operate all-cargo flights on the majority of the routes between Hong Kong and mainland China.

International Route Rights

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

— availability of appropriate aircraft and flight personnel;

— safety record;

— on-time performance; and

— hub location.

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

Airfare Pricing Policy

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

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

The CAAC and the National Development and Reform Commission, or NDRC, jointly publish the pricing guidelines from time to time, which set forth the basic airfare levels and permitted ranges. Pursuant to the current pricing guidelines, the basic airfares for domestic routes are the published airfares implemented by Chinese airlines immediately prior to the approval of the Pricing Reform Plan (the average basic airfare for domestic routes is RMB0.75 per passenger-kilometer). Except for certain domestic routes, the actual airfare set by each Chinese airline for its domestic routes cannot be 25% higher and 45% lower than the basic airfare. Domestic routes that are not subject to the deviation range restrictions include short-haul routes between cities in the same province or autonomous region, or between a municipality and adjacent provinces, autonomous regions or another municipality. Certain tourist routes and routes served by only one Chinese airline are not subject to the bottom range restriction. The CAAC and the NDRC will announce the routes that are not subject to the deviation range restrictions through the airfare information system known as Airtis.net. Chinese airlines may apply to the CAAC and the NDRC for exemption from the bottom range restriction for a particular route. Chinese airlines are also required to file the actual airfare they set for their domestic routes within the ranges through Airtis.net 30 days prior to its implementation.

The CAAC and the NDRC will regularly review the average operating costs of Chinese airlines, and may adjust the basic airfare for particular domestic routes which, in their view, is not at a reasonable level. We expect that, as reforms continue in 2009, we will have more flexibility in operating our aviation business in the future. The promotion by Chinese regulators of a regulated and orderly market and a fair and positive competition mechanism will also provide a favorable environment for the growth of our business.

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

Acquisition of Aircraft and Spare Parts

Most Chinese airlines are required to purchase their aircraft, aircraft spare parts and other aviation equipment through the China Aviation Supplies Import & Export Group Corporation, or the CASC Group, an entity controlled by the CAAC. If a Chinese airline plans to acquire an aircraft, the airline must first seek approval from the CAAC and NDRC and must, as a condition of approval, provide specific acquisition plans, which are subject to modification by the CAAC and NDRC. If approval of an aircraft acquisition is obtained, the airline negotiates the terms of the acquisition with the manufacturer together with the CASC Group because the CASC Group possesses the license required to import or export aircraft and is entitled to receive a commission. Our Company is permitted to import aircraft, aircraft spare parts and other equipment for our own use from manufacturers through EAIEC , which is 55% owned by CEA Holding and 45% owned by our Company, without the participation of CASC. This gives us freedom in rationalizing our maintenance practices by allowing us to maintain a relatively lower overall inventory level of aircraft parts and equipment than we otherwise would have to maintain. We are still required to obtain an approval from the NDRC for any import of aircraft. We generally pay a commission to EAIEC in connection with these imports.

Domestic Fuel Supply and Pricing

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

In 2005, the NDRC, the CAAC and the China Air Transport Association jointly launched the linkage mechanism for aviation fuel prices and transportation prices by airline companies. The fuel surcharge standards for domestic passenger routes were adjusted according to a series of notices regarding the adjustments of passenger fuel surcharges on domestic routes issued by the NDRC and CAAC from 2006 to 2008. Since the second half of 2008, international crude oil prices have decreased significantly, leading the NDRC and the CAAC to release an announcement on January 14, 2009 to suspend fuel surcharges for domestic passenger routes with effect from January 15, 2009.

Safety

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

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

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

Security

The CAAC establishes and oversees the implementation of security standards and regulations based on the PRC laws and standards established by international civil aviation organizations. Each airline is required to submit to the CAAC an aviation security handbook describing specific security procedures established by the airline for the day-to-day operations and security training for staff. Such security procedures must be formulated based on the relevant CAAC regulations. Chinese airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements. We believe that our Company is in compliance with all applicable security regulations.

Noise and Environmental Regulation

All airlines and airports in China are required to comply with noise and environmental regulations of the State Environmental Protection Agency that are modeled on international standards. The CAAC regulations allow Chinese airports to refuse take-off and landing rights to any aircraft that does not comply with State noise regulations. We believe that our Company is in compliance with all applicable noise and environmental regulations.

Chinese Airport Policy

Prior to September 2003, all civilian airports in China were operated directly by the CAAC or by provincial or municipal governments. In September 2003, as part of the restructuring of the aviation industry in China, the CAAC handed over 93 civilian airports to provincial or municipal governments. The CAAC retained the authority to determine the take-off and landing charges, as well as charges on airlines for the use of airports and airport services. Prior to 2004, Chinese airlines were generally required to collect from their passengers on behalf of the CAAC a levy for contribution to the civil aviation infrastructure fund, which was used for improving China's civilian airport facilities. Our revenue for the previous years is shown net of this levy. In 2003, the levy was 5% of domestic airfares and 2% of international airfares. The levy was waived by the CAAC from May 1, 2003 to December 31, 2003. With effect from September 2004, the civil aviation infrastructure levies, now paid to the Ministry of Finance, have been reflected in air fares of Chinese airlines rather than collected as a separate levy.

On December 28, 2007, the Civil Aviation Administration of China and the NDRC released the Implementing Scheme for the Civil Aviation Airport Charges Reform Implementation Plan, which was implemented on March 1, 2008. This new plan divides airport charges into three parts: charges related to airline businesses; charges related to important non-airline items; and other non-airline charges. The charges related to airline businesses and important non-airline items must follow the national guided prices, in which the standard prices are rarely increased, while reduced rates can be negotiated between the airport or the service provider and the users. The plan grants us the right to negotiate with airports on the airport charges.

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The civil aviation infrastructure levy has been waived again from January 2009 to June 2009, according to one of the ten measures announced by the CAAC in December 2008 in response to the global economic downturn. The waived levy for China's aviation industry will amount to approximately RMB4,000 million in total. The ten measures also include measures to enhance safety, reduce taxes, invest in infrastructure and optimize the airspace and air routes.

Limitation on Foreign Ownership

The CAAC's present policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot aggregately hold a majority of our total outstanding shares. Currently, approximately 32.2% of our total outstanding shares are held by non-Chinese residents and Hong Kong, Macau or Taiwan residents (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC).

Competition

Domestic

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

There are currently 41 Chinese airlines in mainland China, and our Company competes with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. Our Company, Air China Limited, or Air China, which is based in Beijing and listed on the Hong Kong Stock Exchange and the London Stock Exchange, and China Southern Airlines Company Limited, or China Southern, which is based in Guangzhou and listed on the Hong Kong Stock Exchange and the New York Stock Exchange, are the three leading air carriers in China, both in terms of revenue tonne-kilometers and size of operations. Each of these three airlines operates at least 250 routes and has a fleet of at least 240 jet aircraft. As of December 31, 2008, our Company, Air China and China Southern accounted for 19.3%, 26.2% and 24.6%, respectively, of the total commercial air traffic (as measured in RTKs) handled by Chinese airlines.

Each of the domestic airlines competes against other airlines operating the same routes or flying indirect routes to the same destinations. Our principal competitors in the domestic market are China Southern and Air China, which also provide transportation services on some of our routes, principally routes originating from the major air transportation hubs in China, such as Shanghai, Guangzhou and Beijing. Some of these routes are among our most heavily traveled routes. Since most of the major domestic airlines operate routes from their respective hubs to Shanghai, our Company also competes against virtually all of the major domestic airlines on these routes. The number of airlines operating flights to and from Shanghai has increased significantly in recent years. We also face domestic competition from Shanghai Airlines, an airline based in Shanghai which is smaller than our Company. Competition between Shanghai Airlines and us increases as Shanghai Airlines expands its long-haul capacity and operates routes to more cities served by our Company.

Regional

Our high yielding Hong Kong routes are highly competitive. The primary competitor on our Hong Kong routes is Hong Kong Dragon Airlines Limited, or Dragonair. We currently operate approximately 390 flights per week on routes between 16 Chinese cities and Hong Kong. Cathay Pacific Airways, or Cathay, and Dragonair compete with us on several of these routes, particularly the Shanghai-Hong Kong route. In addition to the frequency and convenience of our flights and the number of routes offered, our Company's competitive strategy for the Hong Kong routes also stresses safety and service quality. The new Air Transportation Arrangement signed between the PRC Government and the administrative government of Hong Kong in February 2000 provides for equal opportunity for airlines based in Hong Kong and mainland China. As a result, Dragonair has increased the frequency of its flights on several of our Hong Kong routes, resulting in intensified competition. Our Company also faces competition from Dragonair in our Hong Kong cargo operations.

On September 28, 2006, Cathay, which previously owned approximately 17.79% of Dragonair, acquired the remaining 82.21% equity interest in Dragonair, turning Dragonair into a wholly-owned subsidiary of Cathay. In connection with the acquisition, Cathay doubled its shareholding in Air China to 20% and Air China acquired approximately 10.16% equity interest in Cathay. Cathay and Air China also entered into an agreement to enhance cooperation between them in a number of operational areas, including operating all the passenger services of Cathay and Air China between Hong Kong and mainland China as joint venture routes under code-share and revenue and cost-pooling arrangements. Cathay's acquisition of Dragonair and enhanced cooperation with Air China may further intensify the competition on the routes between Hong Kong and mainland China and impose greater competitive pressure on the other airline companies operating on these routes.

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 regular direct flights per week with effect from 2009 between 16 cities in mainland China and eight cities in Taiwan. The two sides also agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. While we currently operate five direct routes to Taipei from Shanghai, Nanjing, Xi'an, Kunming and Wuhan, which accounts for 24 regular direct flights per week, and are one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.

We previously competed with Air Macau on the Shanghai Pudong-Macau route. We operated 416 flights on our Shanghai Pudong-Macau route in 2008 but ceased to operate this route in October 2008. In addition, Air Macau's routes also provide an alternative to our Hong Kong routes for passengers traveling between Taiwan and mainland China.

International

We compete with Air China, China Southern and many other well-established foreign carriers on our international routes. Most of our international competitors are very well-known international carriers and are substantially larger than us and have substantially greater financial resources than we do. Many of our international competitors also have significantly longer operating histories and greater name recognition than we do. Some international passengers, who may perceive these airlines to be safer than Chinese airlines in general, may prefer to travel on these airlines. In addition, many of our international competitors have more extensive sales networks and utilize more developed reservation systems than ours, or engage in promotional activities, such as frequent flyer programs, that may be more popular than ours and effectively enhance their ability to attract international passengers. We also face significant competition in our international cargo operations. Moreover, China and the United States entered into an air service agreement on July 24, 2004. Pursuant to this agreement, five additional airlines from each country are allowed to serve the China-U.S. market over the next few years. It is expected that there will be a significant increase in China-U.S. air services over the next few years due to this agreement, which would further intensify competition in this market. Another air transport agreement was signed between China and the United States on July 9, 2007 in order to increase travel and tourism and promote cultural, business and governmental exchanges between China and the United States, as well as to promote the ultimate objective of full liberalization of the bilateral air transport market. A trade services agreement was also signed between China and ASEAN countries in January 2007 and became effective in July 2007 to remove the restrictions on China's entry into foreign freight markets.

Air China operates the largest number of international routes among all Chinese airlines. Beijing, the hub of Air China's operations, is the destination for most international flights to China. We compete with All Nippon Airways, Japan Airlines, Air China, Shanghai Airlines and Northwest Airlines, Inc. on our passenger routes to Japan. Hainan Airlines Company Limited, China Southern and Hong Kong Express Airways Limited also entered the Japan market and had some impact on sales for our Osaka, Nagoya and Okinawa routes. On our Korean routes, we compete with Asiana Airlines, Korean Air, China Southern and Shanghai Airlines. Our principal competitors on our flights to Southeast Asia include Thai Airways International, Singapore Airlines and China Southern. On our passenger flights to the United States, our principal competitors include Northwest Airlines, Inc., United Airlines, American Airlines, Air China and China Southern. On our European routes, our competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways and Lufthansa German Airlines. We compete with Air China and Qantas Airways Ltd. on our Australian routes. We compete in the international market on the basis of price, service quality, frequency of scheduled flights and convenient sales arrangements. To improve our competitive position in international markets, we have established additional dedicated overseas sales offices, launched our own frequent flyer program, participated in "Asia Miles", a popular frequent flyer program in Asia, and entered into code-sharing arrangements with a number of foreign airlines. We have also improved our online reservation and payment system.

Maintenance and Safety

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

Maintenance Capability

We currently perform regular repair and maintenance checks on all of our aircraft. We are able to perform D1 checks on our Boeing 737NG and Airbus A320 and C checks on Boeing 737-300, 767-300, Airbus A300-600, MD-90, CRJ-200 and EMB-145LR. We also perform certain maintenance services for other Chinese airlines. Our primary aircraft maintenance base is at Hongqiao Airport. We have additional maintenance bases at Pudong International Airport and each of our provincial hubs. Our maintenance staff in Shanghai supervises the operation of our regional maintenance facilities. We currently employ approximately 7,425 workers as maintenance and engineering personnel. Some of our aircraft maintenance personnel have participated in the manufacturer training and support programs sponsored by Airbus Industries G.I.E., or Airbus, and Boeing Corporation, or Boeing. In order to enhance our maintenance capabilities and to reduce our maintenance costs, we have, over the past few years, acquired additional maintenance equipment, tools and fixtures and other assets, such as airborne testing and aircraft data recovery and analysis equipment. Our avionics equipment is primarily maintained and repaired at our electronic maintenance equipment center located in Shanghai.

We entered into a joint venture with Honeywell International Inc., formerly Allied Signal Inc., in Shanghai for the purpose of performing maintenance and repairs on aircraft wheel assemblies and brakes. Since October 1997, we have operated a maintenance hangar at Hongqiao Airport which has the capacity to house two wide-body aircraft. Our Company and Rockwell Collins International Inc. of the United States have also co-established Collins Aviation Maintenance Service Shanghai Limited, which is primarily engaged in the provision of repair and maintenance services for avionics and aircraft entertaining facilities in China. Our Company and Rockwell Collins International Inc. holds 35% and 65%, respectively, of the equity interests in the joint venture. Moreover, in November 2002, our Company, jointly with Aircraft Engineering Investment Limited, established Shanghai Eastern Aircraft Maintenance

Limited, in which our Company holds 60% of the equity interests, to provide supplemental avionics and other maintenance services to our Company. STA, which was established in 2004 by our Company and Singapore Technologies Aerospace Ltd. under a joint venture agreement dated March 10, 2003, also provides us with aircraft maintenance, repair and overhaul services.

On November 6, 2007, we entered into a joint venture with United Technologies Corp., or UTC, to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd., or Pratt & Whitney, for the purpose of performing maintenance and repairs on aircraft engines. Our Company and UTC contributed US$20,145,000 and US$19,355,000, respectively, to the registered capital and holds 51% and 49%, respectively, of the equity interests in the joint venture.

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

Safety

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

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

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

Fuel Supplies

Fuel costs represented approximately 32.5% of our operating expenses in 2008. We currently purchase a significant portion of the aviation fuel for our domestic routes from regional branches of the CAOSC. Fuel costs in China are affected by costs at domestic refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China. Fuel prices at five designated major airports in China, namely, the airports in Shanghai Pudong, Beijing, Guangzhou, Shenzhen and Tianjin, are set and adjusted once a month by the CAAC in accordance with prevailing fuel prices on the international market. For our international routes, we purchase a portion of our aviation fuel from foreign fuel suppliers located at the destinations of these routes, generally at international market prices.

In 2008, our fuel expenses increased 22.3% as a result of increased weighted average domestic and international fuel prices. In particular, in 2008, the weighted average fuel prices paid by our Company increased by approximately 28.0%.

Ground Facilities and Services

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

We have our own ground services and other operational services, such as aircraft cleaning and refueling and the handling of passengers and cargo for our operations at Hongqiao Airport and Pudong International Airport. We also provide ground services for many other airlines that operate to and from Hongqiao Airport and Pudong International Airport. We generally contract for ground services with other airports served by our Company or the principal airlines based at other airports served by our Company for fees and other charges which are typically based on passenger or cargo volume or aircraft tonnage.

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

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

Marketing and Sales

Passenger Operations

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

We have also adopted customized strategies to market our services to particular travelers. We seek to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travelers, we focus on the frequency of flights between major business centers, convenient transit services and an extensive sales network. We launched our "Golden Swallow" frequent flyer program in 1998 and joined the "Asia Miles" frequent flyer program in April 2001 to attract and retain travelers. In August 2003, we changed the name of our frequent flyer program to "Eastern Miles" and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels and restaurants that are our strategic partners. As a result of our continual efforts to develop the "Eastern Miles" program, the number of members of the frequent flyer program reached approximately 4.3 million in 2008, with a flight-taking rate of 10.4%, bringing the influence of our products into full play. The special services hotline "95808" call center was established and came into operation in 2004.

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In 2000, we launched the “China Eastern Airlines-Great Wall” co-branded credit card jointly with the Bank of China, which provides our customers with benefits such as airfare discounts, hotel room reservation packages and increased baggage allowances. In 2004, working with partner hotels, we launched our Eastern Holiday product series to attract more leisure travelers. In addition, we continued to promote our “China Eastern Express” services on our Shanghai-Hong Kong and Shanghai-Beijing routes and our “China Shuttle” transit services. Our “China Eastern Express” services (including “BTBT” and “Shanghai Beijing Express”) provide more scheduled flights on some of our heavily traveled routes, such as Shanghai-Hong Kong and Shanghai-Beijing, compared with our other routes. Our “China Shuttle” services provide expedited transit services at Hongqiao Airport and Pudong International Airport for transit travelers on domestic routes and certain international routes, significantly enhancing our customer service. We streamlined the transfer and connection procedures, rationally allocated flights, and also introduced different fares for connection flights to meet the needs of different travelers. In 2005, we launched international routes originating from Shenyang, Dalian, Xi’an, Shenzhen, Chongqing, Chengdu and Harbin under internal code-sharing arrangements. We also introduced the “Single Check-in for Transit Passengers and Luggage” service in 23 cities, including Shantou and Xiamen. All of these efforts improved the quality of our transit services and, as a result, the number of passengers who used our transit services exceeded 800 thousand and 690 thousand persons/time in 2007 and 2008, respectively. In June 2004, we officially introduced our China Eastern Service Scheme to the public at large. Under this scheme, we devote efforts to flight scheduling, assurance and maintenance and enhance our non-regular services.

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

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

In 2002, we upgraded our online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. We continue to encourage our customers to book and purchase tickets via the Internet. We also maintain an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of our airline tickets are sold by domestic and international sales agents. Our tickets are sold throughout China through over 6,700 large- and mid-sized sales agencies and travel agencies who have contractual relationships with us. Currently, our direct domestic ticket sales are handled primarily through employees based at our ticket counters located at Hongqiao Airport and Pudong International Airport in Shanghai and in Anhui, Jiangsu, Zhejiang, Jiangxi, Shandong, Shanxi, Hebei, Hubei, Yunnan and Shaanxi provinces, as well as at airports in Beijing, Chengdu, Fuzhou, Guangzhou, Hangzhou, Ningbo, Shenzhen, Xiamen and Yantai. Direct sales are also promoted through the availability of our telephone reservation and confirmation services. In addition to our domestic sales agents, we maintain overseas sales or representative offices in Los Angeles, New York, Vancouver, Madrid, Paris, London, Frankfurt, Munich, Moscow, Sydney, Melbourne, Tokyo, Osaka, Nagasaki, Fukuoka, Nagoya, Okinawa, Niigata, Sapporo, Kagoshima, Hiroshima, Fukushima, Okayama, Matsuyama, Komatsu, Singapore, Bangkok, Seoul, New Delhi, Kuala Lumpur, Mumbai, Maldives, Johannesburg and Hong Kong, which facilitate the sale of international and Hong Kong air tickets and provide reservation confirmation and other services. In addition, we established our Hong Kong operations division in 2005 to facilitate our marketing and sales in Hong Kong. We also established a Taipei office in May 2009 to provide administrative and support services for passengers, as well as to prepare supplies for our flight crew.

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

Cargo Operations

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

Ancillary Airline Activities

In addition to our airline operations, we also generate commission revenues from tickets sold on behalf of other airlines. Commission rates for these sales are determined by the CAAC and are based on the price of the tickets sold.

Moreover, we derive revenues from the provision of airport ground services for airlines operating to or from Hongqiao Airport and Pudong International Airport, including aircraft cleaning, loading, unloading, storage and ground transportation of cargo and passenger luggage. At present we are the principal provider of these services at Hongqiao Airport and Pudong International Airport. We provide these services to foreign carriers generally pursuant to one-year renewable contracts. In 2008, we generated revenues of approximately RMB1,624 million from our airport ground services and cargo handling services.

Patents and Trademarks

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

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

Insurance

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

C. Organizational Structure

See the section headed “Item 4. Information on the Company — Business Overview”.

D. Property, Plant and Equipment

Fleet

As of December 31, 2007, we operated a fleet of 223 aircraft, including 197 passenger jets each with a seating capacity of over 100 seats and 11 jet freighters. In 2008, we added a total of 19 aircraft to our fleet, including the purchase of one A320 aircraft and the finance lease of seven A320 aircraft, five A321 aircraft, one A330-200 aircraft, three A330-300 aircraft, one B737-700 aircraft and one B737-800 aircraft and surrendered the lease of two aircraft, including one B737-300 aircraft and one B747F aircraft. We did not dispose of any older aircraft and related flight equipment in 2008. On January 30, 2008, we entered into an agreement with Boeing to purchase 30 737 NG Series aircraft (with engines). On June 27, 2008, we entered into a sale and purchase agreements with ICBC Financial Leasing Co., Ltd. regarding the sale and purchase of three Airbus A340 series aircraft, including the engines, accessories and documents in connection with such aircraft and lease agreements with ICBC Financial Leasing Co., Ltd. regarding the leasing-back of the aircraft. We plan to continue to expand our scale in 2009 and to adjust and optimize our route network, thereby increasing our competitiveness and ability to create more attractive products and services to meet the needs of the market.

Existing Fleet

As of December 31, 2008, we had a fleet of 240 aircraft, including 214 passenger jets each with a seating capacity of over 100 seats and 11 jet freighters. The following table sets forth the details of our fleet as of December 31, 2008:

	Total Number of Aircraft	Number of Aircraft Owned and under Finance Lease	Aircraft under Operating Lease	Average Number of Seats	Average age (in years) (1)
Jet Passenger Aircraft:					
Wide-body:					
A340-600	5	5	—	322	5.0
A340-300	5	5	—	289	12.2
A330-300	15	8	7	300	1.7
A330-200	5	2	3	264	2.2
A300-600R	7	7	—	269	14.0
B767-300	3	3	—	263	12.2
Narrow-body:					
MD-90	9	9	—	157	10.5
A321	15	15	—	185	1.8
A320	73	47	26	158	6.2
A319	15	5	10	122	5.7
Boeing 737-800	8	—	8	158	4.3
Boeing 737-700	32	17	15	122	4.7
Boeing 737-300	22	16	6	138	12.5
EMB 145LR	10	10	—	50	2.2
CRJ-200	5	5	—	50	6.8
Total Passenger Aircraft:	229	154	75	—	—
Cargo Aircraft:					

MD-11F	6	—	6	—	16.0
A300-600R	3	3	—	—	18.5
B747-400ER	2	2	—	—	1.8
Total Fleet	240	159	81	—	—

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

Our daily average aircraft utilization rate was 9.1 hours in 2008, representing a decrease of 0.7 hours compared to 2007. The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the three years ended December 31, 2008:

	2006	2007	2008
		(in hours)	
Wide-body:			
A340-600	14.0	13.7	10.9
A340-300	12.1	11.7	9.5
A330-300	9.3	9.6	8.9
A330-200	11.5	14.2	13.3
A300-600	8.6	9.3	7.9
B767-300	9.1	10.1	7.7
Narrow-body:			
MD-90	8.1	7.7	5.6
A321	9.0	9.6	9.1
A320	9.3	9.8	9.3
A319	7.8	10.0	9.3
Boeing 737-800	10.5	10.6	9.8
Boeing 737-700	9.9	10.0	9.8
Boeing 737-300	9.0	9.4	8.9
EMB 145	7.6	8.0	6.5
CRJ-200	7.4	8.5	7.8

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

Our MD-11F, A300-600R and B747-400ER aircraft are used for our cargo operations and carry cargo to the United States, Europe and Japan. Our general aviation services customers include provincial authorities in charge of agriculture, forestry and geology.

Future Fleet Development

Our aircraft acquisition program focuses on aircraft that will modernize and rationalize our fleet to better meet the anticipated requirements of our route structure, taking into account aircraft size and fuel efficiency. Our aircraft acquisition program, however, is subject to the approval of the CAAC and the NDRC. The following table summarizes our currently anticipated jet aircraft deliveries from 2009 to 2010 as of December 31, 2008:

	2009E	2010E	Total
Aircraft			
A320	10	14	24
B737-800	3	2	5
B737-700	7	4	11
B787	—	4	4
Total	20	24	44

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

Fleet Financing Arrangements

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

We intend to increase the use of operating leases to improve the flexibility of our operations. However, each decision on our financing alternatives will depend on an evaluation of the following factors:

— our aircraft requirements and anticipated future deliveries;

— capital structure and cash flow situation;

— prevailing interest rates; and

— other market conditions in effect at the time of any such acquisition or financing.

All of our payment obligations under current aircraft leases have been guaranteed by banks in China.

Operating Facilities

The Company (including branches) has operations on 33 parcels of land, occupying a total area of 1,564,573 square meters. The Company has obtained the land use rights certificates and building ownership certificates for certain parcels of land and, with CEA Holding's assistance, is currently in the process of applying for the certificates with respect to the remaining parcels. Our five major holding subsidiaries, including China Cargo Airlines Co., Ltd., Eastern Jiangsu, CEA Wuhan, Eastern Logistics and Shanghai Eastern Flight Training Co., Ltd., own and have operations on 36 parcels of land, occupying a total area of 1,688,550 square meters.

The Company (including branches) owns 1,305 buildings, with a total gross floor area of 524,976 square meters. Our five major holding subsidiaries, including China Cargo Airlines Co., Ltd., Eastern Jiangsu, CEA Wuhan, Eastern Logistics and Shanghai Eastern Flight Training Co., Ltd., own 53 buildings, with a total gross floor area of approximately 244,059 square meters.

We lease from CEA Holding the office buildings in Hongqiao Airport and the properties of our Shanxi branch, Hebei branch and Northwest branch.

In accordance with the lease agreements between our Company and CEA Holding, we lease from CEA Holding 351 properties in total, including 40 parcels of land, occupying a total area of 1,113,307 square meters and 311 buildings and facilities, with a total gross floor area of 305,977 square meters.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our audited consolidated financial statements, together with the related notes, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with IFRS.

Overview

Our primary business is the provision of domestic, regional (which includes Hong Kong, Macau and Taiwan) and international passenger and cargo airline services. Our overall capacity on an available tonne kilometer, or ATK, basis decreased by 3.7%, from 12,085.9 million ATKs in 2007 to 11,642.2 ATKs in 2008, and our passenger capacity on an available seat kilometer, or ASK, basis decreased by 2.3%, from 77,717.2 million Asks in 2007 to 75,964.3 million Asks in 2008. Total traffic on a revenue tonne kilometer, or RTK, basis decreased by 6.4%, from 7,713.9 million RTKs in 2007 to 7,219.0 RTKs in 2008.

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

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

Certain Financial Information by Business Segment

Since 2006, our Company has operated in two business segments, namely the passenger business segment (including cargo carried by passenger flights) and cargo and mail transportation business segment, in view of the continued growth of our cargo and mail transportation services.

The following table sets forth our segment results for the year ended December 31, 2008:

	Passenger RMB	Cargo and logistics RMB	Unallocated RMB	Total RMB
	(in millions)			
Traffic revenues	35,528	3,316	—	38,844
Other revenues and operating income	1,477	1,092	257	2,826
Total segment revenue	37,005	4,408	257	41,670
Inter-segment revenue	(426)	—	(171)	(597)
Revenues	36,579	4,408	86	41,073
Operating (loss)/profit - segment results	(15,149)	(4)	70	(15,083)
Finance income	1,960	101	—	2,061

Finance costs	(2,157)	(147)	(25)	(2,329)
Share of results of associates	—	—	70	70
Share of results of jointly controlled entities	—	—	24	24
(Loss)/profit before income tax	(15,346)	(50)	139	(15,257)
Income tax	10	(74)	(10)	(74)
(Loss)/profit for the year	(15,336)	(124)	129	(15,331)

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The following table sets forth our segment results for the year ended December 31, 2007:

	Passenger RMB	Cargo and logistics RMB	Unallocated RMB	Total RMB
		(in millions)		
Traffic revenues	37,550	3,113	—	40,663
Other revenues and operating income	1,209	901	208	2,318
Total segment revenue	38,759	4,014	208	42,981
Inter-segment revenue	(349)	—	(98)	(448)
Revenues	38,410	4,014	110	42,534
Operating (loss)/profit - segment results	(93)	182	39	128
Finance income	2,055	84	1	2,140
Finance costs	(1,799)	(165)	(14)	(1,978)
Share of results of associates	—	—	58	58
Share of results of jointly controlled entities	—	—	30	30
Profit before income tax	163	101	114	378
Income tax	39	(58)	(4)	(23)
Profit for the year	202	43	110	355

The following table sets forth our segment results for the year ended December 31, 2006:

	Passenger RMB	Cargo and mail RMB	Unallocated RMB	Total RMB
		(in millions)		
Traffic revenues	33,413	2,843	—	36,256
Other revenues	1,212	709	140	2,061
Total segment revenue	34,625	3,552	140	38,317
Inter-segment revenue	(690)	—	(70)	(760)
Revenues	33,935	3,552	70	37,557
Operating (loss)/profit - segment results	(2,566)	(196)	22	(2,740)
Finance income	1,016	18	1	1,035
Finance costs	(1,654)	(104)	(8)	(1,766)
Share of results of associates	—	—	104	104
Share of results of jointly controlled entities	—	—	30	30
(Loss)/Profit before income tax	(3,204)	(282)	149	(3,337)
Income tax	198	(30)	(5)	163
(Loss)/Profit for the year	(3,006)	(312)	144	(3,174)

A. Operating Results

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

	Year Ended December 31,				
	2004(1)	2005(1)	2006(2)	2007(2)	2008
	RMB	RMB	RMB	RMB	RMB
			(in millions)		
Summary Income Statements Data					
IFRS					
Revenues	21,328	27,380	37,557	42,534	41,073
Other operating income and gains	85	245	499	488	672
Operating expenses	(20,117)	(27,562)	(40,795)	(42,894)	(56,828)
Operating profit/(loss)	1,296	63	(2,740)	128	(15,083)
Finance income/(costs), net	(641)	(578)	(731)	162	(267)
Profit/(loss) before income tax	650	(528)	(3,338)	378	(15,256)

	Year Ended December 31,				
	2004(1) RMB	2005(1) RMB	2006(2) RMB (in millions)	2007(2) RMB	2008 RMB
Profit/(loss) for the year attributable to equity holders of the Company	385	(418)	(3,035)	379	(15,269)
Earnings/(loss) per share attributable to equity holders of the Company (2)	0.08	(0.09)	(0.62)	0.08	(3.14)

	As of December 31,				
	2004(1) RMB	2005(1) RMB	2006(2) RMB (in millions)	2007(2) RMB	2008 RMB
Summary Balance Sheet Data					
Cash and cash equivalents	2,114	1,864	1,987	1,655	3,451
Net current liabilities	(12,475)	(25,548)	(24,588)	(26,098)	(43,458)
Non-current assets	35,918	52,106	51,725	57,949	62,652
Long term borrowings, including current portion	(10,736)	(12,659)	(14,932)	(14,675)	(15,628)
Obligations under finance leases, including current portion	(8,662)	(10,588)	(11,949)	(16,452)	(20,809)
Total share capital and reserves	5,897	5,561	2,534	2,361	(13,097)

(1) The figures for the years ended December 31, 2004 and 2005 have been restated as a result of the changes of accounting policy.

(2) The figures for the years ended December 31, 2006 and 2007 have been restated as a result of the changes of accounting policy. Please refer to Note 2(b) of the Financial Statements attached to this Annual Report on Form 20-F for more details.

(3) The calculation of (loss)/earnings per share is based on the consolidated (loss)/profit attributable to shareholders and the weighted average number of shares of 4,866,950,000 in issue during the year.

2008 Compared to 2007

Revenues

Our revenues decreased by 3.4% from RMB42,534 million in 2007 to RMB41,073 million in 2008 (net of the applicable PRC business tax). This decrease was primarily due to a decrease in the revenues of our passenger business segment, as a result of decreased traffic volume. The decrease in our total revenue was partly offset by the increase of revenue from the cargo and logistics business segment. In 2008, we transported a total of 37.2 million passengers, representing a decrease of 4.9% from 39.2 million passengers in 2007. Our total passenger traffic (as measured in RPKs) decreased by 5.9% from 57,183 million passenger-kilometers in 2007 to 53,785 million passenger-kilometers in 2008 and our total cargo and mail traffic (as measured in RFTKs) decreased by 7.4% from 2,614 million freight tonne-kilometers in 2007 to 2,420 million freight tonne-kilometers in 2008. Our average yield for the passenger business segment remained at RMB0.62 per passenger-kilometer, whereas our average yields for the cargo and logistics business segment increased by 5.2% from RMB2.1 per tonne-kilometer in 2007 to RMB2.2 per tonne-kilometer in 2008.

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

Passenger business segment revenues

Our total passenger business segment revenues, including revenues generated from cargo carried by passenger flights, decreased by 4.5% from RMB38,759 million in 2007 to RMB37,005 million in 2008. Total passenger business segment revenues after elimination of inter-segment revenues, which accounted for 89.0% of our total revenues, decreased by 4.8% from RMB38,410 million in 2007 to RMB36,579 million in 2008.

For financial reporting purposes, our passenger business segment includes cargo carried by passenger flights as stated in Note 7(a) to the financial statements. In accordance with industry practice, our passenger related operating statistics, such as passenger traffic volume and passenger yield, exclude cargo carried by passenger flights. The following discussion of our passenger revenues (excluding cargo carried by passenger flights) and passenger related operating statistics conform to industry practice.

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

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

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

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

Cargo and logistics segment revenues

We generate cargo and mail revenues from our cargo and mail transportation services. Our total revenues from our cargo and logistics business segment, excluding revenues generated form cargo carried by passenger flights, increased by 9.8% from RMB4,014 million in 2007 to RMB4,408 million in 2008. There were no inter-segment revenues in 2008. The increase was primarily due to an increase in the average cargo yield , partly offset by a decrease in our cargo and mail traffic caused by decreases in service volume. Cargo and mail yield increased from RMB2.10 in 2007 to RMB2.21 in 2008 per cargo tonne-kilometer primarily due to increase in domestic cargo market price.

For financial reporting purposes, our cargo and logistics business segment excludes cargo carried by passenger flights as stated in Note 7(a) to the financial statements. In accordance with industry practice, our cargo and mail related operating statistics, such as cargo and mail traffic volume and cargo and mail yield, include cargo carried by passenger flights. The following discussion of our cargo and mail revenues (including cargo carried by passenger flights) and cargo and mail related operating statistics conform to industry practice.

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

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

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

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

Other revenues

We also generated revenues other than passenger and cargo and mail services from airport ground services and ticket handling services. Airport ground services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao Airport and Pudong International Airport. Our total other revenues increased by 21.9% from RMB2,318 million in 2007 to RMB2,826 million in 2008 due to the expansion of our logistics business.

Operating Expenses

Our two business segments, namely, our passenger business segment and our cargo and mail business segment, incur similar operating expenses which are subject to similar trends. As a result, we do not provide segmental analysis for our operating expenses and the following discussion is based on our business as a whole.

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

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

Changes in fair value of financial derivatives resulted in a loss of RMB6,401 million, compared to an income of RMB84 million during the same period in 2007. The difference was mainly due to sharp fluctuations in international oil prices in 2008, which plunged rapidly after reaching a historical high in July 2008. In 2008, the fair value movements of financial derivatives charged to the income statement accounted for 11.26% of our total operating costs. As of December 31, 2008, the loss of fair value in our aviation fuel hedging contracts had contributed to the loss of our Company in the amount of approximately RMB6,256 million. See Note 3(a) to our audited consolidated financial statements for details.

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

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

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

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

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

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

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

Other Operating Income and Other Gains

Our other operating income and other gains were primarily generated from government subsidies and income from disposal of aircraft and relevant assets. The total amount of our other operating income and other gains increased from RMB488 million in 2007 to RMB672 million in 2008 primarily due to income derived from the disposal of aircraft and relevant assets of RMB267 million in 2008. The government subsidies represent subsidies granted to us by the PRC government and local government as well as other subsidies granted by various local municipalities to encourage our Company to operate certain routes to cities where these municipalities are located.

Finance Costs

Our finance costs increased by 17.7% from RMB1,979 million in 2007 to RMB2,328 million in 2008 primarily due to interest expenses of RMB1,945 million on loans from banks and other financial institutions, representing an increase of 19.4% from 2007, as well as the interest expense of RMB651 million on finance lease obligations, representing a decrease of 11.1% from 2007.

Net Profit / (Loss)

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

Fixed Assets

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

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

2007 Compared to 2006

Revenues

Our revenues increased by 13.0% from RMB37,557 million in 2006 to RMB42,534 million in 2007 (net of the applicable PRC business tax). This increase was primarily due to an increase in the revenues of our passenger business segment and cargo and mail business segment, as a result of increased traffic volume, partly offset by the average yield. In 2007, we transported a total of 39.2 million passengers, representing an 11.8% increase from 35.0 million passengers in 2006. Our total passenger traffic (as measured in RPKs) increased by 13.8% from 50,272 million passenger-kilometers in 2006 to 57,183 million passenger-kilometers in 2007 and our total cargo and mail traffic (as measured in RFTKs) increased by 7.0% from 2,444 million freight tonne-kilometers in 2006 to 2,614 million freight tonne-kilometers in 2007. Our average yield for the passenger business segment increased to RMB0.62 per passenger-kilometer, whereas our average yields for the cargo and mail business segment decreased by 8.7% from RMB2.3 per tonne-kilometer in 2006 to RMB2.1 per tonne-kilometer in 2007.

Passenger business segment revenues

Our total passenger business segment revenues, including revenues generated from cargo carried by passenger flights, increased by 11.9% from RMB34,625 million in 2006 to RMB38,759 million in 2007. Total passenger business segment revenues after elimination of inter-segment revenues, which accounted for 90.3% of our total revenues, increased by 12.9% from RMB33,935 million in 2006 to RMB38,410 million in 2007. The increase was primarily due to the increase in traffic revenues for the passenger business segment.

For financial reporting purposes, our passenger business segment includes cargo carried by passenger flights as stated in Note 7(a) to the financial statements. In accordance with industry practice, our passenger related operating statistics, such as passenger traffic volume and passenger yield, exclude cargo carried by passenger flights. The following discussion of our passenger revenues (excluding cargo carried by passenger flights) and passenger related operating statistics conform to industry practice.

Our passenger traffic revenues increased by RMB4,548 million, or 14.8%, from RMB30,630 million in 2006 to RMB35,178 million in 2007, due to the increase in traffic revenues generated from our domestic and international services, partly offset by those generated from our regional services.

Our domestic passenger traffic revenues (excluding Hong Kong passenger revenues), which accounted for 61.8% of our total passenger traffic revenues in 2007, increased by 13.7% from RMB19,137 million in 2006 to RMB21,756 million in 2007. This increase was primarily due to an increase in our domestic passenger traffic following increases in our capacity. Compared to 2006, our domestic passenger traffic (as measured in RPKs) increased by 13.5%, from 31,272 million tonne-kilometers in 2006 to 35,492 million tonne-kilometers in 2007. The number of passengers carried on domestic routes increased by 12.3%, from 27.7 million in 2006 to 31.2 million in 2007. Our passenger-kilometers yield for domestic routes remained at RMB0.61 per passenger-kilometer.

International passenger traffic revenues, which accounted for 32.1% of our total passenger traffic revenues in 2007, increased by 24.2% from RMB9,084 million in 2006 to RMB11,280 million in 2007. This increase was primarily due to an increase in our international passenger traffic, which resulted from increases in our capacity, as well as an increase in air fares. Our international passenger traffic (as measured in RPKs) increased by 18.8% in 2007, from 15,478 million in 2006 to 18,386 million in 2007. The number of passengers carried on international routes increased by 18.0%, from 4.8 million in 2006 to 5.7 million in 2007. Our passenger-kilometers yield for international routes increased from RMB0.58 per passenger-kilometer in 2006 to RMB0.61 per passenger-kilometer in 2007.

Hong Kong passenger traffic revenues, which accounted for 6.1% of our total passenger traffic revenues in 2007, decreased by 11.1% from RMB2,409 million in 2006 to RMB2,142 million in 2007. This decrease was due to a slight decrease of 6.2%, from 3,521 million in 2006 to 3,305 million in 2007, in our Hong Kong passenger traffic (as measured in RPKs), as well as a decrease in the average price of our regional airfares. The number of passengers carried on Hong Kong routes decreased 6.3%, from 2.5 million in 2006 to 2.3 million in 2007. Our passenger-kilometers yield for Hong Kong routes decreased from RMB0.71 per passenger-kilometer in 2006 to RMB0.65 per passenger-kilometer in 2007.

Cargo and mail segment revenues

We generate cargo and mail revenues from our cargo and mail transportation services. Our total revenues from our cargo and mail business segment, excluding revenues generated form cargo carried by passenger flights, increased by 13.0% from RMB3,552 million in 2006 to RMB4,014 million in 2007. There were no inter-segment revenues in 2006 and 2007. The increase was primarily due to an increase in our cargo and mail traffic caused by increases in service volume as a result of the expansion of our capacity, partly offset by the average cargo yield. Cargo and mail yield decreased from RMB2.30 in 2006 to RMB2.10 in 2007 per cargo tonne-kilometer primarily due to fare decreases resulting from intensified market competition.

For financial reporting purposes, our cargo and logistics business segment excludes cargo carried by passenger flights as stated in Note 7(a) to the financial statements. In accordance with industry practice, our cargo and mail related operating statistics, such as cargo and mail traffic volume and cargo and mail yield, include cargo carried by passenger flights. The following discussion of our cargo and mail revenues (including cargo carried by passenger flights) and cargo and mail related operating statistics conform to industry practice.

Our cargo and mail traffic revenues decreased by RMB140 million, or 2.5%, from RMB5,625 million in 2006 to RMB5,486 million in 2007, due to the decrease in traffic revenues generated from our international services and regional services.

Our domestic cargo and mail traffic revenues (excluding Hong Kong cargo and mail revenues), which accounted for 10.8% of our total cargo and mail traffic revenues in 2007, increased by 17.2% from RMB506 million in 2006 to RMB593 million in 2007. This increase was primarily due to an increase in our domestic cargo and mail traffic, as well as an increase in service charges. Compared to 2006, our domestic cargo and mail traffic (as measured in RFTKs) increased by 5.9%, from 575 million in 2006 to 609 million in 2007. The weight of cargo and mail carried on domestic routes increased by 5.7%, from 439 million kilograms in 2006 to 464 million kilograms in 2007. Our freight tonne-kilometers yield for domestic routes increased from RMB0.87 per tonne-kilometer to RMB0.97 per tonne-kilometer.

International cargo and mail traffic revenues, which accounted for 79.6% of our total cargo and mail traffic revenues in 2007, decreased slightly by 0.7% from RMB4,396 million in 2006 to RMB4,364 million in 2007, due to a significant decrease in service charges despite the increase of 10.3% in the weight of cargo and mail carried on international routes from 359 million kilograms in 2006 to 396 million kilograms in 2007. Our freight tonne-kilometers yield for international routes decreased from RMB2.54 per tonne-kilometer to RMB2.31 per tonne-kilometer.

Hong Kong cargo and mail traffic revenues, which accounted for 9.6% of our total cargo and mail traffic revenues in 2007, decreased by 27.0% from RMB723 million in 2006 to RMB528 million in 2007. This decrease was primarily due to a decrease of 16.8%, from 141 million in 2006 to 118 million in 2007, in our Hong Kong cargo and mail traffic (as measured in RFTKs). The amount of cargo and mail carried on Hong Kong routes also decreased by 16.6%, from 96 million kilograms in 2006 to 80 million kilograms in 2007. Our freight tonne-kilometers yield for Hong Kong routes decreased from RMB5.24 per tonne-kilometer to RMB4.49 per tonne-kilometer.

Other revenues

We also generated revenues other than passenger and cargo and mail services from airport ground services and ticket handling services. Airport ground services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao Airport and Pudong International Airport. Our total other revenues increased by 12.5% from RMB2,061 million in 2006 to RMB2,318 million in 2007 due to the increase in ticketing services as a result of increases in ticket refund charges and airport ground services as a result of increased air traffic.

Operating Expenses

Our two business segments, namely, our passenger business segment and our cargo and mail business segment, incur similar operating expenses which are subject to similar trends. As a result, we do not provide segmental analysis for our operating expenses and the following discussion is based on our business as a whole.

Our total operating expenses increased by 5.1% from RMB40,795 million in 2006 to RMB42,894 million in 2007 primarily due to a significant increase in aviation fuel expenses, wages, salaries and other benefits, take off and landing charges, office, administration and other expenses and selling and marketing expenses, partly offset by the decrease in aircraft operating lease and aircraft maintenance expenses. However, our total operating expenses as a percentage of our revenues decreased from 108.6% in 2006 to 100.8% in 2007.

Aviation fuel expenses, which accounted for 35.2% of our total operating expenses in 2007, increased by 11.1% from RMB13,609 million in 2006 to RMB15,117 million in 2007. This increase was primarily due to rising fuel prices, the increase in fuel consumption due to the substantial increase in our total flying hours and mileage in 2007. In 2007, we consumed a total of 2.55 million tonnes of aviation fuel, representing an increase of 9.5% compared to 2006. We paid a weighted average fuel price of RMB5,879 per tonne in 2007, representing an increase of RMB99 per tonne, or approximately 1.7%, from RMB5,780 per tonne in 2006. Aviation fuel expenses accounted for 35.2% of our total operating expenses in 2007, as compared to 33.3% in 2006.

Take-off and landing charges, which accounted for 12.1% of our total operating expenses in 2007, increased by 3.71% from RMB4,989 million in 2006 to RMB5,174 million in 2007 primarily due to the increase in our flights from approximately 340,000 in 2006 to approximately 370,000 in 2007, while party offset by a decrease in the average take-off and landing charges.

Wages, salaries and benefits, which accounted for 10.0% of our total operating expenses in 2007, increased by 22.3% from RMB3,538 million in 2006 to RMB4,327 million in 2007, primarily due to the increase in the number of our employees following the expansion of our core business operations, the improvement of basic salaries and the increase in flying hour payments resulting from the increase in the flying hours of our pilots.

Office, administration and other expenses, which was largely incurred by our passenger business segment, increased by 5.9% from RMB3,619 million in 2006 to RMB3,834 million in 2007 primarily due to our business expansion, an increase in overseas crew expenses and an increase in settlement fees due to flight delays resulting from the additional number of flights.

Selling and marketing expenses, which was largely incurred by our passenger business segment, increased by 4.0% from RMB1,735 million in 2006 to RMB1,805 million in 2007, accounting for 4.2% of our total operating expenses in 2007. The increase was primarily due to the increase in agency business handling fees and distribution system service fees as a result of an increase in the number of passengers carried as well as an increase in the price of overseas distribution systems.

Aircraft operating lease expenses decreased by 3.5% from RMB2,955 million in 2006 to RMB2,851 million in 2007. The decrease was mainly due to the expiry of operating leases of certain aircraft in 2007 and the appreciation of the Renminbi against the U.S. dollar. The number of aircraft operated by us increased from 205 as of December 31, 2006 to 223 as of December 31, 2007. Depreciation and amortization expenses increased by 5.9% from RMB4,456 million in 2006 to RMB4,720 million in 2007 primarily due to the expansion of the scale of our operations and the introduction of additional aircraft.

Aircraft maintenance expenses, which accounted for 5.6% of our total operating expenses in 2007, decreased by 9.6% from RMB2,647 million in 2006 to RMB2,392 million in 2007. This was principally due to the timing of overhauls of aircraft under operating leases.

Other Operating Income and Other Gains

Our other operating income and other gains were primarily generated from government subsidies. The net amount of our other operating income and gains increased due to an increase in government subsidies from RMB462 million in 2006 to RMB488 million in 2007. The government subsidies represent subsidies granted to us by the PRC government and local government as well as other subsidies granted by various local municipalities to encourage our Company to operate certain routes to cities where these municipalities are located.

Finance Costs

Our finance costs increased by 12.1% from RMB1,766 million in 2006 to RMB1,979 million in 2007 primarily due to interest expenses of RMB732 million on finance leases, representing an increase of 34.6% from 2006, and interest expenses of RMB1,629 million on loans from banks and other financial institutions, representing an increase of 3.1% from 2006. However, the above amounts were partly offset by the recognition of a net exchange gain of RMB2,023 million arising from the retranslation of U.S. dollar denominated liabilities.

Net Profit

As a result of the foregoing operating results, the net profit attributable to equity holders was RMB379 million in 2007, as compared to a net loss of RMB3,035 million in 2006.

Fixed Assets

Our Company had approximately RMB47,270 million of fixed assets as of December 31, 2007, including aircraft, engines and flight equipment with a value of approximately RMB42,758 million.

In December 2006, our Board of Directors passed a resolution to dispose of certain older aircraft and related flight equipment within the following 12 months. Accordingly, these aircraft together with related flight equipment and spare parts were classified as non-current assets held for sale as of December 31, 2006. Despite our Company's continuing efforts to locate and negotiate with potential buyers, no agreement to dispose of these assets had been reached as of December 31, 2008. As of the same date, it was our management's intention to dispose of these assets within the following 12 months and our management is continuing to take active steps to locate potential buyers. They have therefore been classified as non-current assets held for sale as of December 31, 2008. An impairment loss of RMB235 million has been recognized in the income statement in relation to these assets with reference to the estimated market values as at the balance sheet date. See Note 10(c) to our audited consolidated financial statements for details.

B. Liquidity and Capital Resources

We typically finance our working capital requirements through a combination of funds generated from operations and short-term bank loans. As a result, our liquidity could be materially and adversely affected to the extent there is a significant decrease in demand for our services or if there is any delay in obtaining bank loans. As of December 31, 2007 and 2008, we had cash and cash equivalents of RMB1,655 million and RMB3,451 million, respectively.

As of December 31, 2008, our accumulated losses amounted to approximately RMB18.1 billion. In addition, our current liabilities exceeded our current assets by approximately RMB43.5 billion and our total liabilities exceeded total assets by approximately RMB12.6 billion. As a consequence, our directors have taken active steps to seek additional sources of finance to improve our liquidity position. We had credit facilities of RMB13.5 billion from certain banks as of December 31, 2008, and have since then successfully obtained additional credit facilities in an aggregate amount of RMB56 billion from certain banks and financial institutions. See the discussion below under "–Working Capital and Liabilities".

Cash Flows from Operating Activities

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

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

In 2006, we generated a net cash inflow from operating activities of RMB5,118 million as a result of cash generated from operations in the amount of RMB5,140 million less income tax we paid in 2006. Our cash generated from operations amounted to RMB5,140 million was mainly due to our operating profit before working capital changes of RMB3,402 million and changes in working capital of RMB1,738 million. The operating profit before working capital changes of RMB3,402 million was a result of the loss before income tax of RMB3,337 million, mainly adjusted for (i) depreciation of property, plant and equipment of RMB4,425 million, (ii) interest expenses of RMB1,822 million, and (iii) impairment loss of RMB888 million. Changes in working capital mainly consisted of other payables and accrued expenses in the amount of RMB1,552 million, partly offset by the (i) decrease in flight equipment spare parts of RMB583 million, (ii) decrease in prepayments, deposits and other receivables in the amount of RMB563 million, and (iii) increase in trade payables and notes payables in the amount of RMB1,499 million.

Cash Flows from Investing Activities

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

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

In 2006, our net cash outflow from investing activities was RMB1,679 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB4,561 million and (ii) additions of property, plant and equipment of RM880 million, partly offset by the refund of advanced payments upon delivery of aircraft of RMB3,745 million.

Cash Flows from Financing Activities

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

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

In 2006, our net cash outflow from financing activities was RMB3,358 million. Our net cash outflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB14,749 million, (ii) proceeds from draw down of long-term bank loans of RMB6,910 million, partly offset by (i) repayments of short-term bank loans of RMB15,134 million, (ii) repayments of long-term bank loans of RMB4,179 million, (iii) repayment of debentures of RMB2,000 million and (iv) interest paid of RMB2,097 million.

Working Capital and Liabilities

We generally operate with a working capital deficit. As of December 31, 2008, our current liabilities exceeded our current assets by RMB43,458 million. In comparison, our current liabilities exceeded our current assets by RMB26,098 million as of December 31, 2007. The increase in our current liabilities in 2008 was primarily due to an increase in the current portion of borrowings, other payables and accrued expenses, including accrued fuel cost, accrued take-off and landing charges, accrued aircraft overhaul expenses and other accrued operating expenses, and derivative liabilities. Short-term loans outstanding totaled RMB15,189 million and RMB19,474 million as of December 31, 2007 and 2008, respectively. Long-term outstanding bank loans totaled RMB14,675 million and RMB15,628 million as of December 31, 2007 and 2008, respectively.

Our consolidated interest-bearing borrowings as of December 31, 2007 and 2008 for the purpose of calculating the indebtedness of our Company, were as follows:

	As of December 31	
	2007	2008
	(RMB million)	
Secured bank loans	4,767	5,768
Unsecured bank loans	25,097	29,333
Total	29,864	35,101

The maturity profile of interest-bearing borrowings of our Company as of December 31, 2007 and 2008 was as follows:

	As of December 31	
	2007	2008
	(RMB million)	
Within one year	18,495	26,513
In the second year	5,927	4,148
In the third to fifth year inclusive	4,217	3,665
After the fifth year	1,226	775
Total	29,864	35,101

As of December 31, 2008, our interest rates relating to short-term borrowings ranged from 2.7% to 7.5%, while our fixed interest rates on our interest-bearing borrowings for long-term bank loans ranged from 4.5% to 8.4%. Our bank loans are denominated in Renminbi, U.S. dollars, Euro and Hong Kong dollars. As of December 31, 2008, our total bank loans denominated in Renminbi amounted to RMB21,956 million, our total bank loans denominated in U.S. dollars amounted to RMB13,008 million, our total bank loans denominated in Euro amounted to RMB112 million, while our bank loans denominated in Hong Kong dollar were equivalent to approximately RMB26 million. See Note 31 to the consolidated financial statements for more information on our borrowings.

We have entered into credit facility agreements to meet our future working capital needs. However, our ability to obtain financing may be affected by our financial position and leverage and credit ratings, as well as by prevailing economic conditions and the cost of financing generally. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to acquire new aircraft and to expand our operations may be materially and adversely affected. On January 15, 2009, we entered into an entrusted loan agreement with CEA Holding, as the principal, and Eastern Finance, as the trustee, pursuant to which we will obtain a short-term loan of RMB5.55 billion from CEA Holding through Eastern Finance. In addition, to further meet our future working capital needs, we obtained a two-year credit facility of RMB10 billion from the Shanghai Pudong Development Bank on January 19, 2009, a three-year credit facility of RMB15 billion from the Agricultural Bank of China on February 13, 2009, and a three-year credit facility of RMB11 billion from the Construction Bank of China on March 16, 2009. In addition, on April 28, 2009, we obtained a one-year credit facility of RMB20 billion from the Bank of China. Based on our past experience, we believe it is likely these facilities will be rolled over in future years if required.

We have, and in the future may continue to have, substantial debts. As of December 31, 2007, our long-term debt to equity ratio was 9.8. However, our equity as of December 31, 2008 was a negative figure, therefore the long-term debt to equity ratio may not be indicative. The interest expenses associated with these debts may impair our future profitability. We expect that cash from operations and bank borrowings will be sufficient to meet our operating cash flow requirements, although events that materially and adversely affect our operating results can also have a negative impact on liquidity.

Capital Expenditures

We expect our capital expenditures for aircraft and related equipment, including deposits, through 2015 to be in aggregate approximately RMB52,534 million, including RMB8,852 million in 2009 and RMB13,174 million in 2010, in each case subject to contractually stipulated increases or any increase relating to inflation. Construction of our facilities at the Pudong International Airport and the purchase of maintenance equipment and other property and equipment will continue to require additional capital expenditures in 2009. We plan to finance our other capital commitments through a combination of funds generated from operations, existing credit facilities, bank loans, leasing arrangements and other external financing arrangements.

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

None.

D. Trend Information

Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2008 to December 31, 2008 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance Sheet Arrangements

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

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

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

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

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations and Commercial Commitments

The following tables set forth selected information regarding our outstanding contractual and commercial commitments as of December 31, 2008:

	Payments Due by Period (RMB millions)				
Contractual Obligations	Total	Less Than 1 Year	1-2 Years	2-5 Years	More Than 5 Years
Long-Term Debt	15,628	7,039	4,418	3,666	775
Capital Leases	25,144	2,766	2,704	7,806	11,868
Operating Leases	16,752	2,874	2,455	4,924	6,499
Unconditional Purchase Obligations	52,534	8,852	13,174	22,353	8,155
Other Long-term Obligations (1)	1,321	—	—	—	—
Post-retirement Benefit Obligations (1)	1,516	—	—	—	—
Deferred Tax Liabilities	55	—	—	—	—
Short-term Bank Loans	18,190	18,190	—	—	—
Interest Obligations	6,350	2,121	1,056	1,906	1,267
Under Finance Lease	4,335	849	688	1,602	1,196
Under Bank Loans	2,015	1,272	368	304	71
Fixed Rate	1,382	907	250	190	35
Variable Rate (2)	633	365	118	114	36
Total	131,140	39,721	22,481	38,749	27,297

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

(2) For our variable rate loans, interest rates range from 3 months LIBOR + 0.25% to 6 months LIBOR + 1%. Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2008. A 1% increase in the interest rate would increase the interest obligations by RMB64 million in total with RMB21 million in year 1, RMB11 million in years 2, RMB19 million in years 3 to 5 and RMB13 million for subsequent years.

Other Commercial Commitments	Total Amounts Committed (RMB millions)	Amount of Commitment Expiration Per Period (RMB millions) Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Lines of Credit	28,478	1,233	27,245	—	—
Standby Letters of Credit	—	—	—	—	—
Guarantees	—	—	—	—	—
Standby Repurchase Obligations	—	—	—	—	—
Other Commercial Commitments	—	—	—	—	—
Total	28,478	1,233	27,245		

Critical Accounting Policies

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

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

Estimated impairment of property, plant and equipment and intangible assets

We test whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2(n) to the financial statements. The recoverable amounts of cash generating units is the higher of fair value less costs to sell and value-in-use. The calculation of value-in-use using cash flow projections based on financial budgets approved by management and the key assumptions are disclosed in Note 18(a). Different assumptions could significantly affect the value-in-use calculation and estimated impairment of property, plant and equipment and intangible assets.

Revenue recognition

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

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

Frequent flyer program

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

Depreciation of components related to overhaul costs

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

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

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

Retirement benefits

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

Deferred income tax

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

Foreign Currency Transactions

We have debts denominated in U.S. dollars, Japanese yen or Euro in addition to our debts denominated in Renminbi. We generate a significant amount of foreign currency revenues, including U.S. dollar, Japanese yen, Euro, Korean won, Hong Kong dollar, Singapore dollar, Australian dollar, and Thailand baht revenues, from ticket sales made in overseas offices. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings subject to the approval of SAFE. We have also designated certain personnel to manage the foreign currency risks through derivative financial products such as forward foreign exchange contracts and interest rate swaps. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2008, the notional amount of outstanding interest rate swap agreements was approximately US$471 million, compared to US$624 million as of December 31, 2007. These interest rate swap agreements will expire between 2009 and 2016. In addition, we use currency forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of December 31, 2008, the notional amount of the outstanding currency forward contracts was approximately US$121 million, compared to US$33 million as of December 31, 2007. These currency forward contracts will expire between 2009 and 2017.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by the People's Bank of China. The net exchange gains or losses are recognized and reflected in the income statement for the relevant year. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations. Primarily due to an appreciation of Renminbi against certain foreign currencies (including the U.S. dollar and the Japanese yen) following the measures introduced by the PRC Government in July 2005 to reform the Renminbi exchange rate regime, we recorded a decrease in net exchange gains from RMB2,023 million as of December 31, 2007 to RMB1,958 million as of December 31, 2008.

Taxation

Since we changed our registered address to Pudong district in Shanghai on July 1, 2001, we have been subject to income tax at the rate of 15%. Our effective tax rate, however, may be higher than the rate of 15% because some of our subsidiaries are incorporated in jurisdictions where the applicable income tax rate is 33% rather than 15%. We had carried forward tax losses of approximately RMB5,380 million and RMB11,465 million as of December 31, 2007 and 2008, respectively, which can be used to set off against future taxable income before 2008 and 2012, respectively.

On March 16, 2007, the National People's Congress approved the Enterprise Income Tax Law (the "EIT Law"), which took effect on January 1, 2008. The PRC enterprise income tax rate for the Company and all its subsidiaries, except those registered in Hong Kong, has been changed to a standard tax rate of 25%. The Company and certain of its subsidiaries located in Pudong District, Shanghai, are entitled to a transitional period to gradually increase the applicable corporate income tax rate to 25% in the next five years. For the year ended December 31, 2008, the corporate income tax rate applicable to the Company and these subsidiaries was 18%. The net deferred tax position of the Company and its subsidiaries as of December 31, 2008 is insignificant and the change in tax rate has no material impact on our deferred tax position. Except for those subsidiaries that are incorporated in Hong Kong and therefore subject to a Hong Kong corporate income tax rate of 16.5%, other subsidiaries of the Company are generally subject to the PRC standard income tax rate of 25%.

Inflation

In recent years, China has not experienced significant inflation and in 2006, inflation did not have a significant effect on our business. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 4.8% and 5.9% in 2007 and 2008, respectively.

Although neither inflation nor deflation in the past had any material adverse impact on our results of operations, we cannot assure you that the deflation or inflation of the Chinese economy in the future would not materially and adversely affect our financial condition and results of operations.

New Pronouncements

The following standards, amendments and interpretations to existing standards, which have been published and are relevant to our Company's operations, are mandatory for accounting periods beginning on or after January 1, 2009 or later periods. We are still assessing the impact of these new/revised standards and interpretations in detail.

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009)
- IFRS 8, 'Operating segments' (effective from January 1, 2009)
- IAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after July 1, 2009)
- IFRS 3 (Revised) "Business Combinations" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after July 1, 2009)
- IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009)
- IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009)
- IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009)
- IFRS 7 (Amendment), 'Financial instruments: Disclosure' (effective from January 1, 2009)

G. Safe Harbor

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

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

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

Name	Age	Shares Owned	Position
Liu Shaoyong(1)	51	0	Chairman of the Board of Directors
Li Jun	56	0	Vice Chairman
Ma Xulun (2)	45	0	Director and President
Luo Chaogeng	59	6,600 A Shares	Director
Luo Zhuping	56	11,616 A Shares	Director and Secretary of the Board
Hu Honggao	55	0	Independent Non-executive Director
Peter Lok	72	0	Independent Non-executive Director
Wu Baiwang	66	0	Independent Non-executive Director
Zhou Ruijin	70	0	Independent Non-executive Director

Xie Rong	57	0	Independent Non-executive Director
Liu Jiangbo	59	0	Chairman of the Supervisory Committee
Xu Zhao	40	0	Supervisor
Yan Taisheng (3)	55	5,000 A Shares	Supervisor
Feng Jinxiong (4)	47	0	Supervisor
Liu Jiashun	52	3,960 A Shares	Supervisor
Zhang Jianzhong	54	0	Vice President
Li Yangmin	46	3,960 A Shares	Vice President
Fan Ru	60	3,696 A Shares	Vice President

Name	Age	Shares Owned	Position
Wu Yongliang (5)	46	3,696 A Shares	Chief Financial Officer

(1) Mr. Liu Shaoyong has served as Chairman of our Company since February 3, 2009.

(2) Mr. Ma Xulun has served as Director of our Company since February 3, 2009 and President of our Company since December 12, 2008.

(3) Mr. Yan Taisheng has served as Supervisor of our Company since March 26, 2009.

(4) Mr. Feng Jinxiong has served as Supervisor of our Company since March 26, 2009.

(5) Mr. Wu Yongliang has served as Chief Financial Officer of our Company since April 2009.

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

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

Directors

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

Mr. Li Jun has served as the Vice Chairman of the Board of our Company since 2007. He also serves as a party secretary of CEA Holding. Mr. Li joined the civil aviation industry in 1972. Since 1977, Mr. Li served as officer in the Political Department and office secretary of CAAC. Mr. Li served as person-in charge of Policy Research

Department in the Civil Aviation Bureau in 1984, deputy director of Policy Research Department in the Civil Aviation Bureau in 1986, deputy manager of Planning Department in CAAC in 1989, manager of Planning Department in CAAC in 1994, director of the General Office in CAAC in 1996, manager of Personnel Education Department in CAAC in 2000, and deputy head and party committee member of CAAC in 2001. Since 2006, Mr. Li has served as party secretary of CEA holding. Mr. Li graduated from the Party School of the Central Committee of the C.P.C. He holds a bachelor degree in Economic Management and is a qualified Economist.

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

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

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

Mr. Hu Honggao has served as an independent non-executive Director of our Company since 1996. He is the vice-dean and professor of law at Fudan University School of Law as well as the head of the Civil and Commercial Law Research Centre of Fudan University, supervising doctoral students majoring in civil and commercial law at Fudan University. He is also a senior lawyer at the Shanghai Shen Yang Law Office. Mr. Hu is a managing director of China Commercial Law Research Society, a managing director of China Economic Law Research Society, a member of the Legislative Consultation Committee of the Shanghai Municipal Government, a member of the Legislative Profession Consultation Committee of the Shanghai Standing Committee of the People’s Congress, vice-chairman of the Shanghai Economic Law Research Society and an arbitrator of the Shanghai Arbitration Committee.

Mr. Peter Lok has served as an independent non-executive Director of our Company since 1998. Mr. Lok went to the College of Air Traffic Control in England for further studies after joining the Hong Kong Civil Aviation Department in December 1956. He studied air transport, air accident investigation and administration and management of civil aviation in England from 1968 to 1973. In 1982, he became assistant director of the Hong Kong Civil Aviation Department. From 1985, during his time in office at the air services division of the Hong Kong Civil Aviation Department, he participated in negotiations with various countries regarding air traffic rights. He became deputy director in 1988, and subsequently became director in 1990 of the Hong Kong Civil Aviation Department. Mr. Lok retired in 1996 and has served as a consultant at the Flights Standards Department of the CAAC. Mr. Lok is the first Chinese director of the Hong Kong Civil Aviation Department and was at one time an instructor of the College of Air Traffic Control of Hong Kong.

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

Mr. Zhou Ruijin has served as an independent non-executive Director of our Company since 2000. Mr. Zhou was deputy editor-in-chief and the East China regional director of the People's Daily. From 1988 to 1993, Mr. Zhou was party secretary and deputy editor-in-chief of the Liberation Daily. From April 1993 to 1996 he was deputy editor-in-chief of the People's Daily and from 1996 to 2000 he was deputy editor-in-chief and the East China regional director of the People's Daily. After he retired, he became vice-chairman of the China Productivity Council and Chairman of the Shanghai Productivity Council. Mr. Zhou graduated from the journalism department of Fudan University in 1962.

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

Supervisory Committee

As required by the PRC Company Law and our articles of association, our Company has a supervisory committee, or the Supervisory Committee, whose primary duty is the supervision of our senior management, including our Board of Directors, managers and senior officers. The Supervisory Committee consists of five supervisors.

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

Mr. Xu Zhao has served as a Supervisor of our Company since 2007, and the chief accountant of CEA holding. Mr. Xu joined the civil aviation industry in 2007. Mr. Xu served as engineer and accountant in Dongfeng Motor Group Company Limited in 1991 and 1997 respectively, Mr. Xu joined Shanghai Yanhua High Technology Limited Company as a manager in finance department in 2000, and joined Shaanxi Heavy Duty Automobile Co. Limited as a chief financial officer in 2002. Since January 2007, Mr. Xu has served as the chief accountant in CEA holding. Mr.

Xu graduated from Chongxing University, majoring in moulding, and The Chinese University of Hong Kong, majoring in accounting, and holds a master degree. Mr. Xu is qualified as an engineer and an accountant, and is a certified public accountant in the PRC.

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

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

Mr. Liu Jiashun is currently a Supervisor of our Company. From 1993 to 1999, Mr. Liu was a party secretary, deputy president and secretary of the disciplinary committee of China Aviation Fuel Hainan Company, as well as chairman of the board and president of Hainan Nanyang Air Transport Co., Ltd. From 1997 to 1999, he was also the chief director in charge of fuel supply engineering at Haikou’s Meilan Airport and served as a director of Meilan Airport Co., Ltd. and the vice chairman of the board and president of Meiya Industrial Co., Ltd. From 1999 to 2007, he was deputy party secretary, and subsequently the secretary of the disciplinary committee of China Aviation Fuel East China Company and he has been the general manager of Shanghai Puhang Oil Co., Ltd. since 2006. Mr. Liu received post-graduate education and is qualified as a senior political work instructor.

Senior Management

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

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

Mr. Fan Ru has served as Vice President of our Company since 2006. Mr. Fan started his civil aviation career in 1966. He was a deputy fleet leader of China Eastern Airlines' Shanghai Fleet since 1988 and was the head of aviation technology management office of China Eastern Airlines since 1995. He was appointed as the deputy chief pilot and the head of aviation technology management office of the Company in 1997. He was the chief pilot of our Company from 1999 to November 2006. Mr. Fan graduated from Advanced Aviation School for professional flying. He has received tertiary education and has obtained first class technical qualifications for pilots.

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

B. Compensation

The aggregate amount of cash compensation paid by us to our Directors, supervisors and the senior management during 2008 for services performed as Directors, supervisors and officers or employees of our Company was approximately RMB1,614,000. In addition, Directors and supervisors who are also officers or employees of our Company receive certain other in-kind benefits which are provided to all of our employees. Our Company does not have any bonus or profit sharing plan or any stock option plan.

Details of the emoluments paid to our Directors, supervisors and senior management for the year 2008 are as follows:

Name and Principal Position	2008 Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Directors	—	—	—
Liu Shaoyong*	—	—	—
Ma Xulun*	—	—	—
Li Fenghua*	—	—	—
Luo Chaogeng*	—	—	—
Cao Jainxiong*	—	—	—
Li Jun*	—	—	—
Luo Zhuping	173		173
Independent non-executive Directors			
Hu Honggao	120	—	120
Peter Lok	117	—	117
Wu Baiwang	120	—	120
Zhou Ruijin	120	—	120
Xie Rong	120	—	120
Supervisors			

Liu Jiangbo*	—	—	—
Xu Zhao*	—		—
Yang Jie	45	—	45
Wang Taoying	162	—	162
Liu Jiashun	—	—	—
Senior Management			
Zhang Jianzhong	203	—	203
Li Yangmin	188	—	188
Fan Ru	654	—	654
Luo Weide	189	—	189
Total	2,211	—	2,211

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

During the year ended December 31, 2008, no Directors and supervisors waived their compensation.

C. Board Practices

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

Name	Held Position Since	Expiration of Term
Liu Shaoyong	February 3, 2009	June 29, 2010
Li Jun	June 29, 2007	June 29, 2010
Ma Xulun	February 3, 2009	June 29, 2010
Luo Chaogeng	June 29, 2007	June 29, 2010
Luo Zhuping	June 29, 2007	June 29, 2010
Hu Honggao	June 29, 2007	June 29, 2010
Peter Lok	June 29, 2007	June 29, 2010
Wu Baiwang	June 29, 2007	June 29, 2010
Zhou Ruijin	June 29, 2007	June 29, 2010
Xie Rong	June 29, 2007	June 29, 2010
Liu Jiangbo	June 29, 2007	June 29, 2010
Xu Zhao	June 29, 2007	June 29, 2010
Yan Taisheng	March 26, 2009	June 29, 2010
Feng Jinxiong	March 26, 2009	June 29, 2010
Liu Jiashun	June 29, 2007	June 29, 2010
Zhang Jianzhong	June 29, 2007	June 29, 2010
Li Yangmin	June 29, 2007	June 29, 2010
Fan Ru	June 29, 2007	June 29, 2010
Wu Yongliang	March 31, 2009	June 29, 2010

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

Our Board of Directors established the audit committee in August 2000 in accordance with the listing rules of the Hong Kong Stock Exchange. On June 29, 2007, the fifth session of the Board of our Company held the first meeting for 2007 and elected Mr. Xie Rong, Mr. Hu Honggao and Mr. Zhou Ruijin as the members of the Audit Committee and appointed Mr. Xie Rong as the chairman of the Audit Committee. The audit committee is authorized to, among other things, examine our internal control system and review auditing procedures and financial reports with our auditors. Subject to the approval of the shareholders' meeting, the audit committee of our Company is also directly responsible for the appointment, compensation, retention and oversight of our external auditors, including resolving disagreements between management and the auditor regarding financial reporting. The external auditors report directly to the audit committee. The audit committee holds at least four meetings each year. The audit committee has established procedures for the receipt, retention and treatment of complaints received by our Company regarding accounting, internal controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The audit committee has the authority to engage independent counsel and other advisors, as it determines necessary, to carry out its duties. Our Company provides appropriate funding, as determined by the audit committee, for payment of compensation to the external auditors, advisors employed by the audit committee, if any, and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

On June 29, 2007, the fifth session of the Board of the Company held the first meeting for 2007 and appointed Mr. Zhou Ruijin, Mr. Luo Chaogeng and Mr. Wu Baiwang as the remuneration and assessment committee of the Company (the "Remuneration and Assessment Committee"), and Mr. Zhou Ruijin was elected as the chairman of the Remuneration and Assessment Committee. The remuneration and assessment committee is authorized to review the performance of our Directors, supervisors and management as well as determine their annual compensation level. The remuneration and assessment committee submits to our Board of Directors or shareholders' meeting for approval compensation plans and oversee the implementation of approved compensation plans. The remuneration and assessment committee may consult financial, legal or other outside professional firms in carrying out its duties. The Remuneration and Assessment Committee did not hold any meeting in 2008. Under the guidance of the Remuneration and Assessment Committee, we have provided liability insurance for our Directors, supervisors and senior management in August 2008.

D. Employees

Through arrangements with CEA Holding and others, we provide certain benefits to our employees, including housing, retirement benefits and hospital, maternity, disability and dependent medical care benefits. Our Company does not have any bonus or profit sharing plan or any stock option plan. See Notes 35 and 36 to our audited consolidated financial statements. Our employees are members of a labor association which represents employees with respect to labor disputes and certain other employee matters. We believe that we maintain good relations with our employees and with their labor association. The table below sets forth the number of our employees as of December 31, 2006, 2007 and 2008, respectively:

	As of December 31,		
	2006	2007	2008
Pilots	2,696	2,873	3,048
Flight attendants	5,069	5,851	6,036
Maintenance personnel	5,595	6,043	7,425
Sales and marketing	2,863	2,483	2,922
Other	22,169	23,227	24,722
Total	38,392	40,477	44,153

E. Share Ownership

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

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth certain information regarding ownership of our capital stock as of May 29, 2009 by all persons who were known to us to be the beneficial owners of 5% or more of our capital stock:

Title of Class	Identity of Person or Group	Amount Owned	Percent of Class	Percent of Total Shares
Domestic A Shares	CEA Holding	2,904,000,000	88%	59.67%
H Shares	HKSCC Nominees Limited (1)	1,544,484,799	98.57%	31.73%

(1) As custodian of the Depositary for American Depositary Shares representing H Shares.

CEA Holding has held 59.67% of our issued and outstanding capital stock since its establishment in October 2002, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

As of December 31, 2008 and May 29, 2009, there were 1,566,950,000 H Shares issued and outstanding. As of December 31, 2008 and May 29, 2009, there were, respectively, 52 and 52 registered holders of American depositary receipts evidencing 1,159,318 and 1,064,596 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

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

B. Related Party Transactions

Relationship with CEA Holding and Associated Companies

We enter into transactions from time to time with CEA Holding and its subsidiaries. For a description of such transactions, see Note 43 to our audited consolidated financial statements.

Related Business Transactions

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

Eastern Aviation Import and Export Corporation, or EAIEC, a 55% owned subsidiary of CEA Holding.

Our Company and EAIEC have entered into an import/export agency agreement dated May 12, 2005 to supersede our agreement dated January 7, 1997, regarding the import and export of aircraft-related accessories, machinery and equipment for a term of three years commencing from July 1, 1999. The agreement is subject to renewal. For the year ended December 31, 2008, the handling charges paid to EAIEC were approximately RMB47 million in total.

We have certain balances with EAIEC, which are unsecured, interest-free and have no fixed term of repayment. See Note 43(b) to our audited consolidated financial statements for more details.

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

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

Our Company and Eastern Advertising have entered into an advertising service agreement dated May 12, 2005 to supersede our agreement dated December 30, 1996, regarding the provision of advertising services for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. For the year ended December 31, 2008, the aggregate amount we paid to Eastern Advertising for advertising services was approximately RMB4 million .

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

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

On May 12, 2005, our Company entered into certain catering service agreements with a number of subsidiaries of CEA Catering (including Shanghai Eastern Air Catering Co., Ltd.) regarding the provision of in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in our Company's daily airline operations and civil aviation business. For the year ended December 31, 2008, the aggregate amount we paid to the subsidiaries of CEA Catering for the supply of in-flight meals and other services was approximately RMB372 million.

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

Eastern Air Group Finance Co., Ltd., or Eastern Finance, which is 46.3% owned and controlled by CEA Holding and other subsidiaries of CEA Holding.

Our Company and Eastern Finance have entered into a financial services agreement dated May 12, 2005 to supersede our agreement with Eastern Finance dated January 8, 1997, regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. Pursuant to this agreement, we may place deposits with, and obtain loans from, Eastern Finance. As of December 31, 2008, we had short-term deposits amounting to RMB1,203 million placed with Eastern Finance, which paid interest to us at 0.4% per annum. In addition, our Company had short-term loans of RMB295 million from Eastern Finance. During the year ended December 31, 2008, the weighted average interest rate on the loan was 4.3% per annum.

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

On April 29, 2008, we entered into a financial services agreement to renew our agreement dated May 12, 2005 regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references, in substantially the same terms, for an additional term of three years commencing from July 1, 2008. The new financial services agreement was approved, confirmed and ratified by independent shareholders at our Annual General Meeting held on June 30, 2008.

TravelSky Technology Ltd., which is 33% owned by CEA Holding.

We pay ticket reservation service charges to TravelSky, which is 33% owned by CEA Holding, in connection with our use of its computer reservation system. For the year ended December 31, 2008, we paid ticket reservation service charges to TravelSky of approximately RMB241 million.

CEA Development Co., a non-wholly owned subsidiary of CEA Holding.

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

For the year ended December 31, 2008, automobile maintenance fees paid to CEA Development Co. and SEAEMC amounted to approximately RMB24 million.

Ticket Sales

On May 12, 2005, our Company entered into certain sales agency services agreements with several subsidiaries of CEA Holding regarding the sales of our air tickets by such subsidiaries of CEA Holding as our sales agents and the provision of complementary services for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. Under such agreements, the sales agents charge commissions at rates with reference to those prescribed by the CAAC and the International Aviation Transportation Association, as determined following arm's length negotiations. Such commissions are payable monthly in arrears. The parties will perform an annual review of the then prevailing commission rate before the 31st of December in each calendar year, and agree on any required adjustments to such commission rate in respect of the next calendar year. For the year ended December 31, 2007, the aggregate amount of commissions we paid to those sales agents for the sales agency services was approximately RMB9 million.

On April 29, 2008, we entered into certain sales agency service agreements to renew our agreements dated May 12, 2005 regarding the sales of our air tickets by certain subsidiaries of CEA Holding as our sales agents and the provision of complementary services, in substantially the same terms, for an additional term of three years commencing from July 1, 2008.

Property Leases

Our Company and EA Group had entered into an office lease agreement dated January 7, 1997 in respect of office premises located at 2550 Hongqiao Road, Shanghai, China. The lease term is one year and renewable by the parties, subject to mutual agreement with respect to rental terms. The total rental payment is approximately RMB158,342 per month. In addition, our Company and EA Group had entered into a staff dormitory lease agreement dated December 31, 1996, pursuant to which EA Group had agreed to enter into lease arrangements with our employees for dormitories in Shanghai, Anhui Province, Shandong Province and Jiangxi Province. The term of the lease and the rental payments are set in accordance with Chinese regulations and the rate prescribed by the Shanghai Municipal Government. CEA Holding has assumed EA Group's rights and liabilities under those lease agreements after its establishment.

On May 12, 2005, we entered into a property leasing agreement with CEA Holding, CEA Northwest and CEA Yunnan for a term of three years, subject to renewal of another three years. Pursuant to this property leasing agreement, we leased from CEA Holding, for our use in daily airlines and other business operations: (i) a maximum of altogether 33 land properties owned by CEA Holding through, and registered in the name of, CEA Northwest, covering an aggregate site area of approximately 692,539 square meters located primarily in Xi'an, Xianyang and Yongdeng, together with a total of 225 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 269,148 square meters; and (ii) a maximum of altogether seven land properties owned by CEA Holding through, and registered in the name of, CEA Yunnan, covering an aggregate site area of approximately 420,768 square meters primarily located in Kunming, together with a total of 81 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 457,722 square meters. Under the property leasing agreement, our Company shall pay annual rentals to CEA Holding. The rentals are payable half-yearly in advance, and are subject to review and adjustments provided that the adjustments shall not exceed the applicable inflation rates published by the relevant local PRC authorities. In 2007, we paid a rental of RMB55 million under this property leasing agreement.

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On April 29, 2008, we entered into an agreement to renew the property leasing agreement dated May 12, 2005 for an additional term of three years commencing July 1, 2008. Pursuant to the agreement, we will renew our lease on all properties covered by the previous property leasing agreement entered into on May 12, 2005, except that where we previously leased 81 building properties and related construction, infrastructure and facilities, we will instead lease 77 building properties and related construction, infrastructure and facilities covering an aggregate floor area of approximately 452,949 square meters. In addition, CEA Holding will be the only counterparty in the property leasing renewal agreement. Under the property leasing renewal agreement, our Company will pay annual rentals of approximately RMB55.14 million. The rental payments will be payable half-yearly in advance, and are subject to review and adjustments provided that the adjustments shall not exceed the applicable inflation rates published by the relevant local PRC authorities. The property leasing renewal agreement was approved, confirmed and ratified by independent shareholders at our Annual General Meeting held June 30, 2008.

Guarantee by CEA Holding

As of December 31, 2008, certain unsecured long-term bank loans of the Group with an aggregate amount of RMB357 million were guaranteed by CEA Holding. See Note 31 to our audited consolidated financial statements.

Subscription Agreement with CEA Holding

Our Company and CEA Holding entered into a subscription agreement on November 9, 2007 for CEA Holding to subscribe in cash for 1,100,418,000 new H Shares, which would represent approximately 23% of our existing H shares, for an aggregate consideration of HK$4.2 million. The subscription agreement was part of a proposed investment by SIA and Temasek. See the section headed "Item 4. Information on the Company – History and Development of the Company". As of August 9, 2008, the transaction contemplated under the agreements between CEA Holding and our Company did not proceed to completion and the Subscription Agreement and CEA Holding Subscription Agreement expired because the conditions precedent were not fulfilled on or before August 9, 2008.

On December 10, 2008, CEA Holding entered into an A Share Subscription Agreement (the "Original A Share Subscription Agreement") with our Company to subscribe for new A shares to be issued by our Company. Simultaneously with entering into the Original A Share Subscription Agreement, CES Global entered into an H Share Subscription Agreement with our Company (the "Original H Share Subscription Agreement") to subscribe for new H shares to be issued by our Company. Subsequently, the parties made amendments to certain terms of the Original A Share Subscription Agreement and the Original H Share Subscription Agreement; and on December 29, 2008, CEA Holding entered into a revised A Share Subscription Agreement with our Company to subscribe in cash for 1,437,375,000 new A shares in our Company at the subscription price of RMB3.87 per share with a total subscription price of approximately RMB5,563 million, and CES Global entered into a revised H Share Subscription Agreement with our Company to subscribe in cash for 1,437,375,000 new H shares in our Company at the subscription price of RMB1.00 per share with a total subscription price of approximately RMB1,437 million, respectively. The Original A Share Subscription Agreement and the Original H Share Subscription Agreement were cancelled accordingly. On February 26, 2009, we convened a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders, at which special resolutions were passed to approve both the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to CEA Holding and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global.

On May 22, 2009, we had received an approval issued by CSRC dated May 19, 2009 in relation to our proposed issue of 1,437,375,000 new H Shares at a price of RMB1.00 per share to CES Global. Pending the final approval to be issued by CSRC in relation to the issuance of the new A Shares, we will arrange for the new H Shares and the new A Shares to be issued.

Disposal of interests in China Eastern Air Investment Company Limited

On November 16, 2007, our Company, CEA Holding and East China Care System Co., Ltd. entered into an equity transfer agreement regarding our interests in China Eastern Air Investment Company Limited. Our Company agreed to dispose our entire interest of 98.8% in China Eastern Air Investment Company Limited for the consideration of RMB461.9 million, while East China Care System Co., Ltd. also agreed to dispose of its entire 1.2% interest in China Eastern Air Investment Company Limited for the consideration of RMB5.7 million.

C. Interests of Experts & Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Financial Statements

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

Legal Proceedings

We are involved in routine litigation and other proceedings in the ordinary course of our business. We do not believe that any of these proceedings are likely to be material to our business operations, financial condition or results of operations. In 2005, the family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou city in the Inner Mongolia Autonomous Region on November 21, 2004, sued, among other defendants, our Company in a U.S. court for compensation, the amount of which has not been determined. As of December 31, 2006, we had filed a motion to contest the claim in the U.S. court because we expressly did not assume the legal liability of such incident in our acquisition of certain selected assets relating to the aviation business of CEA Yunnan. On July 5, 2007, pursuant to several conditions with which our Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non conveniens for the purpose of permitting proceedings in the PRC. Moreover, the Superior Court scheduled and held a status conference on December 10, 2007, and intends to schedule subsequent status conferences every six months until the litigation in the PRC is resolved or until the Superior Court determines otherwise. On February 20, 2008, the plaintiff filed a motion with the Superior Court of the State of California to lift the stay. The motion was denied by the Superior Court on May 6, 2008. Subsequently, the plaintiff filed the second motion with the Superior Court to lift the stay on July 10, 2008. On August 27, 2008, the Superior Court of the State of California rejected the motion of the plaintiff again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an option on February 26, 2009, dismissing the appeal of the plaintiff and affirming the original order. On March 16, 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and we have not received any notices or official summons from the court in Beijing as of May 31, 2009. We believe, based on professional advice, that it is unlikely that there will be any material adverse effect on our financial position.

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

Dividends and Dividend Policy

For the fiscal year ended December 31, 2004, our shareholder's meeting approved the payment of a cash dividend of RMB0.02 per share. For the fiscal year ended December 31, 2005, our Board of Directors did not recommend any dividend payout. For the fiscal year ended December 31, 2006, our Board of Directors did not recommend any dividend payout due to our operating results in 2006. For the fiscal year ended December 31, 2007 and 2008, our Board of Directors also did not recommend any dividend payout due to our total accumulated losses of RMB2,814 million in the year 2007 and of RMB18,082 million in the year 2008, respectively. The balance of retained profits will be carried forward to next year. We will not convert funds from the common reserve to increase our share capital during this period. The declaration and payment of dividends for years following 2008 will depend upon our financial results, our shareholders' interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends by us to our shareholders, and other factors our Directors may deem relevant. Holders of our H Shares will receive the equivalent amount of cash dividend as that declared in Renminbi, if any, based on the foreign exchange conversion rate published by the People's Bank of China, or PBOC, on the date of the distribution of the cash dividend.

B. Significant Changes

Significant Post Financial Statements Events

On January 15, 2009, CEA Holding (as the principal), Eastern Air Group Finance Company Limited (the "Finance Company") (as the trustee) and our Company (as the borrower) entered into an entrusted loan agreement, pursuant to which our Company will obtain a short-term loan of RMB5.55 billion from CEA Holding through the Finance Company. The loan will be used only as working capital, with the interest rate to be 4.374%, 10% below the bench rate published by the People's Bank of China on the drawdown date. The loan will be provided to our Company in six tranches and the interest will be calculated from the respective drawdown dates. We will repay our loan interest in cash quarterly, mainly funding from the sales revenue of our Company. Our Company has not provided any security over our assets for the loan. We will be entitled to request an extension to the loan after having obtained the consent of CEA Holding, which request should be made in writing 15 days prior to the maturity date of the entrusted loan agreement. The Finance Company shall bear joint liabilities as a guarantor for the loan, and our Company shall pay the relevant expenses and taxes to the Finance Company.

On January 19, 2009, we obtained a two-year credit facility of RMB10 billion from Shanghai Pudong Development Bank. On February 13, 2009, we obtained a three-year credit facility of RMB15 billion from the Agricultural Bank of China. On February 26, 2009, we convened a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders, at which special resolutions were passed to approve both the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to CEA Holding and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global. As of May 31, 2009, we have not received the subscription price from either CEA Holding or CES Global because some necessary consents, approvals or authorizations from the governmental authorities or other third parties for the subscriptions, including but not limited to the final approval from CSRC, have not been obtained. If any of the subscriptions is not approved (including but not limited to the approvals from the shareholders or CSRC), the other subscription will automatically be terminated.

On March 16, 2009, we obtained a three-year credit facility of RMB11 billion from the Construction Bank of China. In addition, on April 28, 2009, we obtained a one-year credit facility of RMB20 billion from the Bank of China.

Item 9. The Offer and Listing

A. Offer and Listing Details

The principal trading market for our H Shares is the Hong Kong Stock Exchange. The ADSs, each representing 100 H Shares, have been issued by The Bank of New York as the Depositary and are listed on the New York Stock Exchange. Prior to our initial public offering and subsequent listings on the New York Stock Exchange and the Hong Kong Stock Exchange on February 4 and 5, 1997, respectively, there was no market for our H Shares or ADSs. Our publicly traded domestic shares, or A shares, have been listed on the Shanghai Stock Exchange since November 5, 1997.

As of December 31, 2008 and May 29, 2009, there were 1,566,950,000 H Shares issued and outstanding. As of December 31, 2008 and May 29, 2009, there were, respectively, 52 and 52 registered holders of American depositary receipts evidencing 1,159,318 and 1,064,596 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary for the ADSs is The Bank of New York. A total of 3,300,000,000 domestic ordinary shares were also outstanding as of May 29, 2009.

The table below sets forth certain market information relating to our H Shares and ADSs in respect of the period from 2004 to May 29, 2009.

	Price Per H Share (HK$)		Price Per ADS (US$)	
	High	Low	High	Low
2004	1.85	1.28	23.70	16.60
2005	1.70	0.95	22.48	12.52
2006	1.73	0.99	22.54	13.00
2007	10.50	1.68	111.58	24.02
First Quarter 2007	2.83	1.68	41.54	24.02
Second Quarter 2007	3.78	2.17	48.52	28.00
Third Quarter 2007	10.50	3.73	147.30	48.05
Fourth Quarter 2007	9.00	5.21	111.58	68.00
2008	8.11	0.65	102.99	8.47
First Quarter 2008	8.11	3.29	102.99	43.61
Second Quarter 2008	4.12	2.41	53.19	30.80
Third Quarter 2008	2.86	1.05	36.50	15.01
Fourth Quarter 2008	1.47	0.65	18.80	8.47
November 2008	1.12	0.65	14.98	8.47
December 2008	1.35	0.75	16.94	8.56
January 2009	1.28	0.95	16.45	12.30
February 2009	1.15	1.01	14.95	12.87
March 2009	1.24	0.91	15.88	12.00
April 2009	1.56	1.19	19.36	15.56
May 2009	1.75	1.32	22.67	16.91

B. Plan of Distribution

Not applicable.

C. Markets

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

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following is a brief summary of certain provisions of our Articles of Association, as amended. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations. A copy of the English translation of our Articles of Association, as amended on February 26, 2009, is attached as an exhibit to this Annual Report on Form 20-F.

Selected Summary of the Articles of Association

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

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

Board of Directors

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

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

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

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

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

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

Description of the Shares

As of December 31, 2008, our share capital structure was as follows: 4,866,950,000 ordinary shares, of which (a) 2,904,000,000 A shares were issued upon the establishment of the Company and all subscribed for by the promoter of the Company, which represent 59.67% of our share capital, were held by CEA Holding; (b) 1,566,950,000 H shares, which represent 32.20% of our share capital, were issued to and purchased by foreign investors in an initial public offering; and (c) 396,000,000 A shares, which represent 8.13% of our share capital, were issued to investors in China.

Our ordinary shareholders shall enjoy the following rights:

(i) the right to dividends and other distributions in proportion to the number of shares held;

(ii) the right to attend or appoint a proxy to attend Shareholders' general meetings and to vote thereat;

(iii) the right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;

(iv) the right to transfer shares in accordance with laws, administrative regulations and provisions of these Articles of Association;

(v) the right to obtain relevant information in accordance with the provisions of these Articles of Association, including:

(1) the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;

(2) the right to inspect and copy, subject to payment of a reasonable charge;

(vi) all parts of the register of shareholders;

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

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

(bb) principal address (residence);

(cc) nationality;

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

(ee) identification documents and their relevant numbers;

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

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

Company for this purpose;

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

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

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

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

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

Shareholders' Meetings

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

(i) where the number of Directors is less than the number of Directors required by the Company Law or two-thirds of the number of Directors specified in these Articles of Association;

(ii) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;

(iii) where shareholder(s) holding 10 per cent or more of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;

(iv) when deemed necessary by the Board of Directors or as requested by the supervisory committee.

When we convene a shareholders' general meeting, written notice of the meeting shall be given forty five (45) days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to us twenty (20) days before the date of the meeting. When we convene a shareholders' annual general meeting, shareholders holding 5 per cent or more of the total voting shares of the Company shall have the right to propose new motions in writing, and we shall place those matters in the proposed motions within the scope of functions and powers of the Shareholders' general meeting on the agenda.

Shareholders' Rights

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

Sources of Shareholders' Rights

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

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

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

Significant Differences in the H Shares and A Shares

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

Restrictions on Transferability and the Share Register

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

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

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

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

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

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

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

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

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

Merger and Acquisitions

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

Repurchase of Shares

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

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

(ii) merging with another company that holds shares in our Company;

(iii) other circumstances permitted by relevant laws and administrative regulations.

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

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

(i) making a pro rata general offer of repurchase to all our shareholders;

(ii) repurchasing shares through public dealing on a stock exchange;

(iii) repurchase by an off-market agreement outside a stock exchange.

Interested Shareholders

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

Article 88:

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

(i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of the shares of that class;

(ii) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class;

(iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;

(iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;

(v) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of such class;

(vi) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of such class;

(vii) to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of such class;

(viii) to restrict the transfer or ownership of the shares of such class or add to such restrictions;

(ix) to allot and issue rights to subscribe for, or convert into, shares in the Company of such class or another class;

(x) to increase the rights or privileges of shares of another class;

(xi) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring;

(xii) to vary or abrogate the provisions of this Chapter.

Article 89:

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

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

(i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange under Article 30, a "controlling shareholder" within the meaning of Article 33;

(ii) in the case of a repurchase of shares by an off-market contract under Article 30, a holder of the shares to which the proposed contract relates;

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

Ownership Threshold

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

Changes in Capital

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

Changes in Registered Capital

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

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Recent Amendments to the Articles of Association

On June 29, 2007, our shareholders approved an amendment to Article 21 of the Articles of Association. The Articles were amended by adding the following new paragraph after the first paragraph of Article 21:

"On 18th December, 2006, the share reform plan of the Company was approved in the relevant shareholders' meeting of the A share market. Upon the implementation of the share reform, the total share capital of the Company remained unchanged and still comprised 4,866,950,000 shares, of which 2,904,000,000 A shares, representing 59.67% of the total share capital of the Company, were held by China Eastern Air Holding Company. The 1,566,950,000 shares, representing 32.20% of the total share capital of the Company, were overseas listed H shares, and the 396,000,000 shares, representing 8.13% of the total share capital of the Company, were domestic listed A shares."

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

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

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

We also received shareholder approval at the February 26, 2009 extraordinary general meeting for proposed amendments to the Articles of Association that are conditional upon and with effect from completion of the A Share Subscription Agreement and the H Share Subscription Agreement dated as of December 29, 2008. As the completion of both subscription agreements has not yet occurred, we have not included the related proposed amendments in our current Articles of Association as they are not currently in effect.

The CSRC has enacted a few regulations in recent years which affect the corporate governance of PRC listed companies and the PRC Company Law has also been amended in various areas. As such, the Board proposed to amend certain provisions in our Articles of Association in accordance with the rules and regulations applicable to our Company. Such amendments relate to the general provisions of the Articles of Association, reduction of capital and repurchase of shares, shareholders and register of shareholders, shareholders' general meeting, board of directors, supervisory committee, financial and accounting systems and profit distribution, merger and division and dissolution and liquidation of our Company. All such amendments will be conditional upon and with effect from approval of the respective resolution at our Annual General Meeting, which is scheduled to be held on June 13, 2009.

C. Material Contracts

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

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

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— an amendment to an aircraft purchase agreement, dated as of June 26, 2006, between our Company and Airbus SAS regarding the purchase of 30 Airbus A320 aircraft (with engines);

— an aircraft purchase agreement, dated January 30, 2008, between our Company and Boeing regarding the purchase of 30 737 NG aircraft (with engines);

— Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global, in relation to the placing of 1,437,375,000 new H shares to CES Global; and

— Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global, in relation to the placing of 1,437,375,000 new A shares to CEA Holding.

D. Exchange Controls

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

On July 21, 2005, the PRC Government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in a significant appreciation of the Renminbi against the U.S. dollar. While the international reaction to Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar.

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

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E. Taxation

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

Taxation — Hong Kong

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

Dividends

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

Taxation of Capital Gains

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

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

Hong Kong Stamp Duty

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

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

Hong Kong Estate Duty

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

Taxation — China

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

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

Taxation of Dividends by China

Individual Investors

The Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System, or the Provisional Regulations, provide that dividends from Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. However, the Chinese State Tax Bureau issued, on July 21, 1993, a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals, or the Tax Notice, which provides that dividends from a Chinese company on shares listed on an overseas stock exchange, or Overseas Shares, such as H Shares (including H Shares represented by ADSs), would not be subject to Chinese withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares.

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

Enterprises

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

Tax Treaties

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

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

Taxation of Capital Gains by China

Individual Investors

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

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

Enterprises

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

Chinese Stamp Tax

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

United States Federal Income Taxation

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

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

— tax-exempt entities;

— partnerships or other entities treated as partnerships for United States federal income tax purposes;

— banks, financial institutions, and insurance companies;

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

— dealers or traders in securities, commodities or currencies;

— U.S. holders liable for alternative minimum tax;

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

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

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

— certain U.S. expatriates; or

— U.S. holders whose functional currency is not the U.S. dollar.

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

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

You are a "U.S. holder" if you are a beneficial owner of H Shares or ADSs and are:

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

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

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

— a trust:

- subject to the primary supervision of a United States court and the control of one or more United States persons; or

- that has elected to be treated as a United States person under applicable United States Treasury regulations.

If a partnership (including any entity treated as a partnership for United States federal tax purposes) is a beneficial owner of the H Shares or ADSs, the treatment of the partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If an investor is a partner in a partnership that holds H Shares or ADSs, such investor should consult its tax advisor. We urge you to consult your tax advisors regarding the United States federal, state, local and non-United States tax consequences of the purchase, ownership and disposition of the H Shares or ADSs.

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

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

Distributions on the H Shares or ADSs

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

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual, trust or estate in a taxable year prior to January 1, 2011 with respect to the H Shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends paid on H Shares or ADSs will be treated as qualified dividends if either (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service, or IRS, has approved for the purposes of the qualified dividend rules, or (ii) the dividends are with respect to ADSs readily tradable on a U.S. securities market, provided that we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Agreement Between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income PFIC rules (the "Treaty") has been approved for the purposes of the qualified dividend rules, and we expect to qualify for benefits under the Treaty. We are considered a qualified foreign corporation with respect to the ADSs because our ADSs are listed on the New York Stock Exchange. Finally, based on our audited financial statements and relevant market data, we believe that we did not satisfy the definition for PFIC status for U.S. federal income tax purposes with respect to our 2008 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market data, we do not anticipate becoming a PFIC for our 2009 taxable year or any future year. However, our status in the current year and future years will depend on our income and assets (which for this purpose depends in part on the market value of the H Shares or ADSs) in those years. See the discussion below under "-Passive Foreign Investment Company".

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of common stock and intermediaries through whom such stock is held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of H Shares or ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

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

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

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

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

Sale, Exchange or Other Disposition

Subject to the discussions below under "— Passive Foreign Investment Company", upon a sale, exchange or other disposition of the H Shares or ADSs, you will generally recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs. The rules relating to the U.S. foreign tax credit are complex. U.S. Holders should consult their own tax advisors regarding the effect of these rules in their particular circumstance. Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes and as a result of the U.S. foreign tax credit limitation, foreign taxes, if any, imposed upon capital gains in respect of H Shares or ADSs may not be currently creditable. Under that Treaty, if any PRC tax was to be imposed on any gain from the disposition of H Shares or ADSs, the gain may be treated as PRC-source income. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of H Shares or ADSs, including the availability of the foreign tax credit under their particular circumstances.

If you are paid in a currency other than U.S. dollars, any gain or loss resulting from currency exchange fluctuations during the period from the date of the payment resulting from sale, exchange or other disposition is made to the date you convert the payment into U.S. dollars will be treated as United States source ordinary income or loss.

Passive Foreign Investment Company

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

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

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

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

Based on the composition of our assets and income and the current expectations regarding the price of the H Shares and ADSs, we believe that we should not be treated as a PFIC for U.S. federal income tax purposes with respect to our 2009 taxable year and we do not intend or anticipate becoming a PFIC for any future taxable year. The determination of PFIC status is a factual determination that must be made annually at the close of each taxable year and therefore, there can be no certainty as to our status in this regard until the close of the 2009 taxable year. Changes in the nature of our income or assets or a decrease in the trading price of the H Shares or ADSs may cause us to be considered a PFIC in the current or any subsequent year.

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

Shares or ADSs ratably over your holding period for the H Shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest United States federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income.

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

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

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

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

Backup Withholding and Information Reporting

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

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

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

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

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

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our debts include both fixed-rate and variable-rate long-term loans and other loans. As a result, we are subject to the market risk of fluctuation of interest rates which may affect the estimated fair value of our debt liabilities or result in losses in cash flow. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2008, the notional amount of the outstanding interest rate swap agreements was approximately US$471 million. These interest rate swap agreements will expire between 2009 and 2016. If the interest rate had been 0.25% higher with all other variables held constant, interest costs on our floating rate instruments would have increased from RMB57.7 million in 2007 to RMB77.6 million in 2008.

Foreign Currency Exchange Rate Risk

Although we derive most of our income from China in Renminbi, our financial lease obligations as well as certain bank loans are denominated in U.S. dollars, Japanese yen, Euro or Renminbi. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings generated from ticket sales made in our overseas offices subject to the approval of SAFE. We use forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of December 31, 2008, the notional amount of the outstanding currency forward contracts was approximately US$121 million, which will expire between 2009 and 2017.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by PBOC. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations.

Following the measures introduced by the PRC Government in July 2005 to reform the Renminbi exchange rate regime, Renminbi has appreciated significantly against certain foreign currencies, including U.S. dollar and Japanese yen. The following table shows the effect on our profit and loss account as a result of the impact on our non-Renminbi denominated monetary assets and liabilities as of December 31, 2008 as a consequence of a fluctuation in value of the following major foreign currencies.

	Profit and Loss Account Decrease/Increase by RMB'000
U.S. dollar appreciates/ (depreciates) by 5%	1,495,352
Japanese yen appreciates/ (depreciates) by 5%	(466)

Fuel Hedging Risk

In order to control fuel costs, we entered into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel. In the face of continuing increases in fuel prices, we reduced the impact of the fluctuation in aviation fuel prices through various financial derivative instruments. For the years 2007 and 2008, we hedged 34.20% and 41.58% of our annual fuel consumption respectively.

The breakdown of our fuel costs for the years 2007 and 2008 are as follow:

	2007	2008
	RMB (in million)	
Fuel cost	15,237	18,480
Realized hedging losses / (profits)	(120)	8
Total fuel cost	15,117	18,488
Unrealized loss/(gains) from fair value movements of the fuel hedging derivatives	(97)	6,256

We engaged in aviation fuel hedging for the purpose of locking in aviation fuel costs. By selecting appropriate instruments, we locked in costs within a hedged price range. However, high fluctuations in aviation fuel prices exceeding the locked-in price ranges has resulted in our Company incurring actual realized and unrealized settlement losses. If the oil price decreased or increased by 5% compared to the closing price as December 31, 2008, the fair value losses as of December 31, 2008 would increase or decrease by approximately RMB500 million.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

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

Not applicable.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our President and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2008, the end of the fiscal year covered by this Annual Report. Our President and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures, have concluded that as of the end of the period covered by this Form 20-F, our disclosure controls and procedures were effective to ensure that material information required to be disclosed in the reports that we file and furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f) and have designed internal control over financial reporting or caused internal control over financial reporting to be designed under our supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, as applicable. Under the supervision and with the participation of our President and our Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008 based upon the criteria in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2008 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

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

- In relation to our ticket clearing process, our management improved the reconciliation between the balance of tickets settled in the ORACLE financial system and the amount of sold-but-unused tickets in the settlement system, and has analyzed and examined the differences to ensure that such differences in amounts will not materially affect our financial statements.

Item 16A. Audit Committee Financial Expert

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

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our Directors, supervisors, President, Chief Financial Officer and other senior managers of our Company. We have filed this code of ethics as Exhibit 11.1 to this Annual Report. Our code of ethics can also be found on our corporate website, http://www2.ce-air.com/cea2/en_US/cea2_enUS_news_detail/0,15275,200,00.html?newsId=200. A copy of our code of ethics will be provided to any person free of charge upon written request to Zhuping Luo, Secretary Office of the Board of Directors, China Eastern Airlines Corporation Limited at 2550 Hongqiao Road, Hongqiao Airport, Shanghai 200335, the People's Republic of China.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate audit fees, audit-related fees and tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the two years ended December 31, 2008:

	Audit Fees (RMB)	Audit-Related Fees (RMB)	Tax Fees (RMB)	All Other Fees (RMB)
2007	18,380,000	0	60,000	0
2008	18,000,000	0	54,000	0

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

Audit Fees

Audit fees primarily consist of fees for the audit of the consolidated financial statements as of and for the years ended December 31, 2007 and 2008 and services provided in connection with regulatory filings.

Audit-Related Fees

Audit-related fees primarily consist of fees for assurance and related services which are reasonably related to the performance of audit or review and generally include advisory services regarding specific regulatory filings and reporting procedures and other agreed-upon services related to accounting and billing records. No audit-related services were performed by PricewaterhouseCoopers for the fiscal years ended December 31, 2007 and 2008.

Tax Fees

Tax fees primarily consist of fees for tax compliance services.

All Other Fees

No other services were performed by PricewaterhouseCoopers for the fiscal years ended December 31, 2007 and 2008.

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

Not applicable.

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

Not applicable.

Item 16G. Corporate Governance

Under the amended Corporate Governance Rules of NYSE, foreign issuers (including our Company) listed on the NYSE are required to disclose a summary of the significant differences between their domestic governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. We have posted a description of such differences under the section entitled “Report of Directors” of our 2008 Hong Kong Annual Report, which can be accessed through the following link on our website: http://www.ce-air.com/ceair/static/xsdh/tzzgx/dqbg/2009/200904/P020090428312050468875.pdf

PART III

Item 17. Financial Statements

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

Item 18. Financial Statements

Reference is made to pages F-1 to F-102.

Item 19. Exhibits

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

(b) Exhibits to this Annual Report:

Exhibit Index

Exhibits	Description
1.1	Articles of Association as amended on February 26, 2009 (English translation).
2.1	Specimen Certificate for the H Shares. (1)
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and Owners and Beneficial Owners from time to time of American Depositary Receipts. (2)
4.1	Office Space Lease Agreement between our Company and Eastern Air Group Company (together with English translation). (1)
4.10	Amendment No. 9 to the A320 Purchase Agreement, dated as of April 21, 2005, between our Company and Airbus SAS. (3) (6)
4.11	Assets Transfer Agreement, dated as of May 12, 2005, between our Company, CEA Holding, CEA Northwest and CEA Yunnan (English translation). (3)
4.12	Aircraft Purchase Agreement, dated as of August 8, 2005, between our Company and The Boeing Company. (4) (6)
4.13	Aircraft Purchase Agreement, dated as of December 20, 2005, as amended by a supplemental agreement dated as of April 10, 2006, between our Company and The Boeing Company. (4) (6)
4.14	Amendment No. 10 to the A320 Purchase Agreement, dated as of June 26, 2006, between our Company and Airbus SAS. (4) (6)
4.15	Aircraft Purchase Agreement, dated as of January 30, 2008, between our Company and The Boeing Company. (5) (6)
4.16	Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global Holdings (Hong Kong) Limited, in relation to the placing of 1,437,375,000 new H shares to CES Global Holdings (Hong Kong) Limited by our Company.
4.17	Share Issue and Subscription Agreement, dated as of December 29, 2008, between our Company and CES Global Holdings (Hong Kong) Limited, in relation to the placing of 1,437,375,000 new A shares to China Eastern Air Holding Company by our Company.
8.1	List of Subsidiaries (as of May 31, 2009).
11.1	Code of Ethics (English translation). (5)
12.1	Certification of President pursuant to Rule 13a-14(a).
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
13.1	Certification of President pursuant to Rule 13a-14(b).

13.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b).

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(1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-6260), filed with the Securities and Exchange Commission on January 9, 1997.

(2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-6284), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H Shares.

(3) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2005.

(4) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on July 7, 2006.

(5) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2008.

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

SIGNATURES

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

CHINA EASTERN AIRLINES CORPORATION LIMITED

By:	/s/ Liu Shaoyong Name: Liu Shaoyong Title: Chairman of the Board of Directors

Date: June 11, 2009

CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2006, 2007 AND 2008

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in equity and of cash flows ("consolidated financial statements") present fairly, in all material respects, the financial position of China Eastern Airlines Corporation Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits which were integrated audits in 2008 and 2007. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, June 11, 2009

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CHINA EASTERN AIRLINES CORPORATION LIMITED

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(Amounts in thousands except for per share data)

		Year ended December 31,		
		2006	2007	2008
	Note	RMB'000	RMB'000	RMB'000
		Restated	Restated	
		Note2(b)	Note2(b)	
Revenues	5	37,556,852	42,533,893	41,072,557
Other operating income	6	462,370	487,562	405,163
Other gains	6	36,207	-	267,084
Operating expenses				
Aircraft fuel		(13,608,793)	(15,117,147)	(18,488,242)
(Loss)/gain on fair value movements of financial derivatives	8	(42,344)	83,965	(6,400,992)
Take-off and landing charges		(4,989,382)	(5,174,183)	(5,279,590)
Depreciation and amortization		(4,456,078)	(4,719,735)	(4,781,562)
Wages, salaries and benefits	9	(3,538,082)	(4,327,397)	(4,545,312)
Aircraft maintenance		(2,647,340)	(2,392,039)	(3,272,981)
Impairment losses	10	(888,419)	(227,456)	(2,976,678)
Food and beverages		(1,180,809)	(1,230,754)	(1,321,268)
Aircraft operating lease rentals		(2,954,751)	(2,850,873)	(2,734,802)
Other operating lease rentals		(276,715)	(292,844)	