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PRELIMINARY OFFERING CIRCULAR DATED 3 NOVEMBER 2017
SUBJECT TO COMPLETION

STRICTLY CONFIDENTIAL

Eastern Air Overseas (Hong Kong) Corporation Limited

(incorporated with limited liability in Hong Kong)

SGD[●] [●] per cent. Guaranteed Bonds due [●]

Unconditionally and Irrevocably Guaranteed by



China Eastern Airlines Corporation Limited

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

(HKSE Stock Code: 00670)

Issue Price: [●] per cent.

The [●] per cent. Guaranteed Bonds due [●] in the aggregate principal amount of SGD[●] (the "Bonds") will be issued by Eastern Air Overseas (Hong Kong) Corporation Limited (the "Issuer") and will be unconditionally and irrevocably guaranteed (the "Guarantee") by China Eastern Airlines Corporation Limited (the "Guarantor").

The Bonds will bear interest from [●] 2017 (the "Issue Date"). Interest on the Bonds is payable semi-annually in arrear in equal instalments of SGD[●] per SGD250,000 in principal amounts of the Bonds on [●] and [●] in each year. Payments on the Bonds will be made without deduction for or on account of taxes of Hong Kong, the PRC (as defined herein) or in each case any authority therein or thereof having power to tax to the extent described under "Terms and Conditions of the Bonds — Taxation".

The Bonds will mature on the Interest Payment Date falling in or nearest to [●] at their principal amount. The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of Hong Kong or the PRC or, in each case, any political subdivision or any authority thereof or therein having power to tax. See "Terms and Conditions of the Bonds — Redemption and Purchase".

The Bonds may also be redeemed at the option of the Bondholders (as defined in the terms and conditions of the Bonds (the "Terms and Conditions of the Bonds")) at 101 per cent. of their principal amount, together with accrued interest, upon a Change of Control (as defined in the Terms and Conditions of the Bonds) and at 100 per cent. of their principal amount, together with accrued interest, upon the occurrence of a No Registration Event (as defined in the Terms and Conditions of the Bonds).

The Guarantor will be required to file or cause to be filed with the State Administration of Foreign Exchange of the PRC or its local counterparts ("SAFE") the Deed of Guarantee (as defined in the "Terms and Conditions of the Bonds") within 15 PRC Business Days (as defined in the Terms and Conditions of the Bonds) after the date of execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE (the "Cross-Border Security Registration"). The Guarantor intends to complete the Cross-Border Security Registration as soon as practicable and in any event before the SAFE Registration Deadline (being 100 PRC Business Days after the Issue Date).

Pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) (the "NDRC Circular") issued by the National Development and Reform Commission of the PRC (the "NDRC") which came into effect on 14 September 2015, the Guarantor has registered the issuance of the Bonds with the NDRC and obtained a certificate from the NDRC on 19 September 2017 evidencing such registration and intends to file or cause to be filed with the NDRC the requisite information and documents on the issuance of the Bonds to the NDRC within 10 PRC Business Days after the Issue Date.

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 23 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

Application will be made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "Professional Investors") only. This Offering Circular is for distribution to Professional Investors only. **Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this Offering Circular. **Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds or the Issuer and the Guarantor or quality of disclosure in this Offering Circular.** Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult his or her adviser.

The Bonds will be represented by interests in a global certificate (the "Global Certificate") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depository for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

DBS Bank Ltd.

Standard Chartered Bank

CCB Singapore

**Shanghai Pudong
Development Bank**

Joint Lead Managers and Joint Bookrunners

ICBC Singapore

Bank of China

ABC International

**Agricultural Bank of China
Singapore Branch**

**Bank of
Communications**

HSBC

ANZ

CMBC Capital

Haitong International

Offering Circular dated [●] 2017

IMPORTANT NOTICE

This offering circular (the “Offering Circular”) includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Company (as defined below). Each of the Issuer and the Guarantor (including its subsidiaries, the “Company”) accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of each of their knowledge and belief there are no other facts the omission of which would make any statement in this Offering Circular misleading.

In addition, each of the Issuer and the Guarantor confirms, having made all reasonable enquiries, that (i) this Offering Circular contains all information with respect to the Issuer, the Company, the Bonds and the Guarantee, which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in it relating to the Issuer and the Company are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer and the Company are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) the financial, operational, statistical, industry and market-related data included in this Offering Circular has been accurately extracted from the various sources, and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, DBS Bank Ltd., Standard Chartered Bank, China Construction Bank Corporation, Singapore Branch, SPDB International Capital Limited, Shanghai Pudong Development Bank Co., Ltd. Singapore Branch, Industrial and Commercial Bank of China Limited, Singapore Branch, Bank of China Limited, ABCI Capital Limited, Agricultural Bank of China Limited, Singapore Branch, Bank of Communications Co., Ltd. Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch, Australia and New Zealand Banking Group Limited, CMBC Securities Company Limited and Haitong International Securities Company Limited (each such party other than the Issuer and the Guarantor are collectively referred to as the “Joint Lead Managers”) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto in certain jurisdictions, including the United States, the United Kingdom, the People’s Republic of China, Hong Kong, Singapore, Taiwan, Macau and Japan and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see “Subscription and Sale”. By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Company, China Eastern Air Holding Company (“CEA Holding” or the “Parent”) and the Guarantor and its subsidiaries and its associates (together with the Issuer, the “Group”), the Bonds or the Guarantee other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Company, the Joint Lead Managers, the Trustee (as defined in the Terms and Conditions of the Bonds) or the Agents (as defined in the Terms and Conditions of the Bonds) or any of their respective

directors, officers, employees, agents, advisers, representatives or affiliates. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Company, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to, and its contents may be disclosed only to, the prospective investors to whom it is provided. By accepting delivery of this Offering Circular, each investor agrees to these restrictions.

None of the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates has independently verified the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

IN CONNECTION WITH THE ISSUE OF THE BONDS, ANY MANAGER (OR PERSONS ACTING ON ITS BEHALF) AS THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END AFTER A LIMITED PERIOD. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER (OR ANY PERSON ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

In making an investment decision, investors must rely on their own examination of the Issuer, the Company, the Group and the terms of the offering, including the merits and risks involved. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates accepts any responsibility for the contents of this Offering Circular or for any statement made or purported to be made in connection with the Issuer, the Guarantor, the Group, the Guarantee or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee and the Agents and each of their respective directors, officers, employees, agents, advisers, representatives and affiliates accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Bonds remain outstanding nor to advise any investor or potential investor of the Bonds of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates.

The Guarantor has prepared audited consolidated financial statements as at and for the years ended 31 December 2015 and 2016 and reviewed consolidated financial statements as at and for the six months ended 30 June 2017. These audited and reviewed consolidated financial statements of the Guarantor are included in this Offering Circular and are prepared in conformity with International Financial Reporting Standards (“IFRS”). See “Index to Consolidated Financial Statements” and “Summary Financial Information — Selected Financial Information”.

Unless otherwise indicated, all references in this Offering Circular to “China” or the “PRC” are to the People’s Republic of China and for the purpose of this Offering Circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan, and all references to “Hong Kong” are to the Hong Kong Special Administrative Region of China.

Unless otherwise specified or the context requires, references herein to “Singapore dollars”, “SGD” or “S\$” are to the lawful currency of Singapore, references herein to “Renminbi”, “RMB” or “CNY” are to the lawful currency of the PRC, references herein to “Hong Kong dollars”, “HK dollars”, “HK\$”, “HK cents” or “HKD” are to the lawful currency of Hong Kong, references herein to “U.S. dollars”, “US\$”, “US cents” or “USD” are to the lawful currency of the United States of America, and references to “IFRS” are to International Financial Reporting Standards.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made forward-looking statements in this Offering Circular regarding, among other things, the Company's financial condition, future expansion plans and business strategy. These forward-looking statements are based on the Company's current expectations about future events and speak only as at the date they are made. The Issuer and the Guarantor 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 the Company's control, and are based on assumptions and analyses made by the Guarantor in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors which the Guarantor believes are appropriate in particular circumstances. These forward-looking statements include, without limitation, statements relating to:

- 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;
- the impact of macroeconomic fluctuations (including the fluctuations of oil prices, interest and exchange rates);
- certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;
- the Company's fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;
- the Company's strategic plan of the cargo operation;
- the Company's strategic plans, including possible acquisition of other airlines;
- the Company's marketing plans, including the establishment of additional sales offices;
- the Company's plan to add new pilots; and
- the impact of unusual events on the Company's business and operations.

All statements other than statements of historical facts contained in this Offering Circular constitute "forward-looking statements". The words or phrases "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "going forward", "intend", "ought to", "may", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Company or its management, are intended to identify "forward-looking statements". All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, revenue and profitability, planned projects and other matters as they relate to the Issuer, the Company and/or the Group discussed in this Offering Circular regarding matters that are not historical fact. Accordingly, you are cautioned 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:

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

- any changes in the regulatory or taxation policies of the CAAC or any regulator or government agency in a jurisdiction where the Company provides services;
- the development of the high-speed rail network in the PRC;
- fluctuations of interest rates and foreign exchange rates;
- the availability of qualified flight personnel and airport facilities;
- the effects of competition on the demand for and price of the Company's services;
- the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;
- any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of the Company's borrowings are denominated;
- the Company's ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and
- general economic conditions in markets where the Company operates.

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GLOSSARY OF TECHNICAL TERMS

Capacity measurements

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

Traffic measurements

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

Load factors

overall load factor	overall load factor
passenger load factor	passenger load factor
freight load factor	cargo tonne-kilometres expressed as a percentage of AFTK
break-even load factor	the load factor required to equate traffic revenue with the Company's operating costs assuming that the Company's total operating surplus is attributable to scheduled traffic operations

Yield and cost measurements

revenue tonne-kilometres yield	revenue from airline operations divided by tonne-kilometres
passenger-kilometres yield (revenue per passenger-kilometre)	revenue from passenger operations divided by passenger-kilometres
freight tonne-kilometres yield (revenue per cargo tonne-kilometre)	revenue from cargo operations divided by cargo tonne-kilometres

available tonne-kilometres unit cost

operating expenses divided by ATK

tonne

a metric ton, equivalent to 2,204.6 lbs

DEFINITION

ADR(s)	means American Depositary Receipts
Air China	means 中國國際航空股份有限公司 (Air China Limited)
Air France or Air France-KLM	means Air France-KLM Group
Air Transportation Arrangement	the Air Transportation Arrangement between mainland China and Hong Kong signed by the PRC government, acting through the CAAC, and Hong Kong in February 2000
Alitalia	means Alitalia — Società Aerea Italiana, the largest airline in Italy
Board	means the board of directors of the Company
CAAC	means the Civil Aviation Administration of China.
CAGR	means the Compound Annual Growth Rate
CAOSC	means the Civil Aviation Oil Supply Company, which is supervised by the SASAC, and is currently the dominant civil aviation fuel supply company in China
CEA Holding	means 中國東方航空集團公司 (China Eastern Air Holding Company), the controlling shareholder of the Company
CES Finance	means 東航金控有限責任公司 (CES Finance Holding Co., Ltd.), a wholly-owned subsidiary of CEA Holding and a substantial shareholder of the Company
CES Global	means 東航國際控股 (香港) 有限公司 (CES Global Holdings (Hong Kong) Limited), a wholly-owned subsidiary of CES Finance, a wholly owned subsidiary of CEA Holding and a substantial shareholder of the Company
CES Leasing	means 東航國際融資租賃有限責任公司 (CES International Financial Leasing Corporation Limited), a company incorporated in the China (Shanghai) Pilot Free Trade Zone of the PRC with registered capital of RMB1 billion, and is directly held as to: (i) 50 per cent. by CEA Holding; (ii) 35 per cent. by CES Global (an indirect wholly-owned subsidiary of CEA Holding); and (iii) 15 per cent. by 包頭盈德氣體有限公司 (Baotou Yingde Gases Co., Limited), an independent third party, the sole shareholder of which is Yingde Gases Group Company Limited, a company listed on the Hong Kong Stock Exchange

CES Media	means 東方航空傳媒股份有限公司 (China Eastern Airlines Media Co., Limited), which is a controlled subsidiary of CEA Holding, and is interested as to 55 per cent. and 45 per cent. by CEA Holding and the Company, respectively
China Cargo Airlines	means 中國貨運航空有限公司 (China Cargo Airlines Co., Limited), a controlled subsidiary of Eastern Logistics
China Eastern Airlines, CEA or the Guarantor	means 中國東方航空股份有限公司 (China Eastern Airlines Corporation Limited)
China National Aviation Fuel	means 中國航空油料集團公司 (China National Aviation Fuel Holding Company), one of the shareholders of the Company
China Southern	means 中國南方航空股份有限公司 (China Southern Airlines Company Limited)
China United Airlines	means 中國聯合航空有限公司 (China United Airlines Co., Ltd.), a wholly-owned subsidiary of the Company
CNPC	means 中國石油天然氣集團公司 (China National Petroleum Corporation)
Code sharing	means a widely adopted marketing arrangement for all airlines across the world. Pursuant to the code-sharing agreements entered into with other airlines, an airline may conduct sales for the seats of code-share flights operated by other airlines as its own products
Company	means China Eastern Airlines and its subsidiaries
CSRC	means the China Securities Regulatory Commission
Ctrip	means 攜程旅遊網絡技術 (上海) 有限公司 (Ctrip Computer Technology (Shanghai) Co., Ltd), the controlling shareholder of Shanghai Licheng Information Technology Consulting Co., Ltd, a shareholder of the Company
Delta or Delta Air Lines	means Delta Air Lines, Inc., one of the shareholders of the Company
Directors	means the directors of the Company
Eastern Airlines Industry Investment	means 東航產業投資有限公司 (Eastern Airlines Industry Investment Company Limited), a wholly-owned subsidiary of CEA Holding
Eastern E-Commerce	means 東方航空電子商務有限公司 (China Eastern Airlines E-Commerce Co., Limited), a wholly-owned subsidiary of the Company

Eastern Logistics	means 東方航空物流有限公司 (Eastern Airlines Logistics Co., Ltd.), a wholly-owned subsidiary of the Company before the Company completed the transfer of its 100 per cent. equity interest to Eastern Airlines Industries Investment in February 2017
Eastern Technology	means 東方航空技術有限公司 (China Eastern Airlines Technology Co., Limited), a wholly-owned subsidiary of the Company
EIT Law	means the Enterprise Income Tax Law of China
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange	means The Stock Exchange of Hong Kong Limited
HSR	means high-speed rail
IATA	means the International Air Transport Association
MOF	means the Ministry of Finance of China
MOFCOM	means the Ministry of Commerce of China
NDRC	means the National Development and Reform Commission of China
NYSE	means New York Stock Exchange
OAG Schedules	means Official Airline Guides Schedule
OPEC	means the Organization of Petroleum Exporting Countries
PBOC	means the People's Bank Of China
PRC	means the People's Republic of China, and for the purpose of this offering circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Qantas	means Qantas Airways
RMB	means Renminbi, the lawful currency of the PRC
SAFE	means the State Administration of Foreign Exchange of China
SASAC	means the State-owned Assets Supervision and Administration Commission of China
SEC	means the United States Securities and Exchanges Commission

Shanghai Airlines	means 上海航空有限公司 (Shanghai Airlines Co., Ltd.), a wholly owned subsidiary of the Company
Shanghai Airlines Tours	means 上海航空國際旅遊（集團）有限公司 (Shanghai Airlines Tours, International (Group) Co., Limited), a wholly-owned subsidiary of the Company
SkyTeam	means the SkyTeam Alliance, one of the three major airline alliances in the world.
SMS	means the safety management system of the Company
SOE	means an enterprise directly and majority owned by the SASAC
USA	means the United States of America

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.

THE ISSUER

The Issuer is a limited liability company incorporated under the Companies Ordinance (Cap. 622) of Hong Kong (CR No. 1614655). It was incorporated in Hong Kong on 10 June 2011. Its registered office is 22/F., Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong. The Issuer is a wholly-owned subsidiary of the Guarantor.

The Issuer is principally engaged in domestic and overseas investment, financing operations, aviation fuel trade business and overseas fund management. The Issuer, as a joint venture partner with Jetstar International Group Holdings Co., Limited, a wholly-owned Hong Kong-based subsidiary of Qantas, invested in Jetstar Hong Kong Airways. Please see “History and Development of the Company” for more details. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue additional bonds, acquire additional aircraft and enter into leases of such aircraft, enter into fuel hedging and other related derivative transactions (and engage in other activities related to the aforementioned) and other businesses related to those of the Company and may incur additional liabilities and indebtedness.

THE COMPANY

The Company was one of the three largest air carriers in China in terms of revenue, tonne-kilometres (or RTK) and number of passengers carried in 2016. The Company is an important domestic airline that operates primarily from its core hub in Shanghai, which is considered to be the international financial and shipping centre of China, and regional hubs in Kunming and Xi’an. The Company’s business primarily focuses on the operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services. As at 30 June 2017, the Company served a route network that covered 1,074 domestic and foreign destinations in 177 countries through SkyTeam, an international airlines alliance. Compared to 2015, the Company’s traffic volume (as measured in RTKs) increased by 10.6 per cent. from 17,820 million in 2015 to 19,712 million in 2016. The Company’s passenger traffic volume (as measured in revenue passenger-kilometres, or RPKs) increased by 14.5 per cent. from 146,342 million in 2015 to 167,529 million in 2016. The Company’s cargo and mail traffic volume (as measured in revenue freight tonne-kilometres, or RFTKs) increased by 0.2 per cent. from 4,865 million in 2015 to 4,875 million in 2016. For the six months ended 30 June 2017, the Company has achieved 9,178 million, 88,147 million and 1,366 million in terms of traffic volume, passenger traffic volume and cargo and mail traffic volume, respectively.

COMPETITIVE STRENGTHS

The Company’s vision is to become a leading airline in Asia and a leading global competitor by emphasizing staff loyalty, customer preference, investor satisfaction and social responsibility. The Company believes that its business model is favourable to that of other major airlines in a number of

significant aspects, which the Company intends to continue to pursue. The Company's main competitive strengths include the Company's status as a Central SOE (which is defined as an enterprise directly and majority owned by the SASAC), its position to benefit from the continued high growth of China's international civil aviation market, its favourable connectivity and geographical position, its high operating efficiency, its improved financial and liquidity position, its strategic SkyTeam membership, its experienced management team and sound corporate governance, as well as strong recognition of the China Eastern Airlines brand.

A Central SOE with strong and direct support from the PRC central government

CEA Holding is one of the 98 Central SOEs directly supervised by the SASAC of the PRC central government. The Company is 56.38 per cent. owned by CEA Holding, which in turn is 100 per cent. owned by the SASAC. The Company enjoys a number of direct and indirect benefits as a result of its status as a Central SOE. For example, the Company has received an aggregate amount of RMB868 million in government subsidies and achieved revenue of RMB1,871 million from routes co-operated with the government for the six months ended 30 June 2017. The Company believes that its status as a Central SOE positions it well to better execute its business plan and to more directly benefit from China's high economic growth.

Well positioned to benefit from the continued high growth of China's international civil aviation market

The Company believes that, based on its established market position and geographic location, it is well-positioned to continue to take advantage of the opportunities presented by China's international civil aviation market growth. In recent years, the trending of outbound tourism galvanised the market of international airline services. During the period from 2010 to 2015, total traffic volume and passenger traffic volume for China's international airline transportation have recorded increases of 8.7 per cent. and 16.9 per cent., respectively. China's international airline transportation market is expected to achieve and keep at an annual growth rate of more than 15 per cent. during the period from 2016 to 2021. In 2020, airline transportation services are expected to cover 93.2 per cent. of China's prefecture-level cities, 89 per cent. of county-level administrative units, 95 per cent. of China's GDP and 92 per cent. of China's population. The Company believes it is well positioned with its dual hubs in Shanghai and Beijing, two of the China's biggest airline markets, to capitalise on the market growth of China's international civil aviation.

Favourable connectivity and geographical position

Shanghai is China's leading international financial centre and international shipping centre. Shanghai handled the largest amount of cargo freight in terms of freight and cargo traffic and the largest amount of flight passengers in terms of passenger traffic among all cities in China in 2016. The Company believes that the operation of its services through its hub in Shanghai, combined with its network that covers 1,074 domestic and international destinations in 177 countries through SkyTeam and its high frequency of flights as of 30 June 2017, allow it to maximise connectivity across the markets and locations that it serves. The Company also strategically develops its hubs in Beijing, which handled the second largest number of flight passengers and cargo freight in China in 2016, and from leading airports in north-west and south-west China (Xi'an and Kunming, respectively). The Company has also developed cooperative relationship with strategic partners to enhance its hub network. For example, in response to the competition from HSR network, the Company has cooperated with the Shanghai Railway Bureau to launch "Air-Rail Pass Transportation" products offering combined air and rail service package in 13 cities in the Yangtze River Delta, including Nanjing,

Hangzhou and Suzhou in 2012. In addition, the Company launched its “Air-Bus Pass” service covering routes such as Shanghai Pudong-Kunshan/Suzhou/Wuxi, Baoshan-Tengchong and Tianjin-Tanggu in 2013 and Wuhan-Huangshi route in 2014 in order to further improve the connectivity of the Company’s flights.

Economies of scale and high operating efficiency

The Company has ranked as one of the 10 largest airlines in the world by IATA in terms of number of scheduled passengers carried. Leveraging on its economies of scale, the Company has continued to improve its operating efficiency in recent years and intends to maintain this momentum. The Company’s operating efficiency is indicated by its annual fleet average utilisation rate which was 9.7 hours per passenger aircraft per day in 2016. According to the 2015 Statistical Bulletin of the Development of Civil Aviation Industry published by the CAAC, the industry average annual fleet utilisation rate was 9.49 hours per aircraft per day.

Improved financial and liquidity position and diversified sources of funding

The Company’s financial and liquidity position have continued to strengthen. The Company’s liability ratio (defined as total liabilities divided by total assets) has improved from 79.83 per cent. as at 31 December 2015 to 74.69 per cent. as at 30 June 2017. The Company’s outstanding funding has been obtained from a number of different sources, including funds generated from operation, operating leases, commercial bank lending, export credit guaranteed bank funding and debt securities issued into the capital markets. Accordingly, the Company has established, and intends to maintain, a diversified portfolio of funding instead of relying on any single source of funding.

Strategic cooperation with SkyTeam Alliance members

On 21 June 2011, the Company became a member of SkyTeam. The Company’s membership in SkyTeam has raised the Company’s standards in terms of marketing, service and other areas and further strengthened its market presence and traffic volume in the international civil aviation market by offering the Company’s customers more convenience and ease when making their international travel plans. As a SkyTeam member, the Company benefits from its strategic alliance with well-known airlines such as Delta Air Lines, China Southern, Alitalia, Air France-KLM, which allows its passengers to enjoy the benefits such as increased flight choices, smoother transfers for long-distance or inter-continental travels, priority check-in and enhanced frequent flyer programme privileges. In addition to the alliance with SkyTeam, the Company continues to deepen collaboration on code-sharing with other airline companies, such as Japan Airlines and Qantas.

Experienced management team and sound corporate governance

The Company believes that its management team is well experienced in the civil aviation industry and is capable of providing expertise to achieve the Company’s business objectives. As at 30 June 2017, the Company’s Board is composed of 11 directors, 4 of whom are independent non-executive directors. The Company’s Chairman, Mr. Liu Shaoyong, joined the civil aviation industry in China in 1978. Since his appointment as Chairman of the Company, Mr. Liu has, among others, managed a series of strategic initiatives such as the merger of the Company with Shanghai Airlines and the restructure of the cargo assets. Mr. Liu also serves as Deputy Party Secretary and President of CEA Holding. Furthermore, the Company’s senior management have implemented a number of important initiatives since 2014, including the formal establishment of foreign airlines service centre, completing

the issuance of 1,327,406,822 A shares, and the execution of the Management Agreement with China Cargo Airlines and the Marketing Agreement with Air France-KLM. Please see “History and Development of the Company” for more details.

Strong brand recognition associated with top quality customer service

The Company believes that it is one of the most respected brands in China. It strives to provide its customers with a pleasant travel experience both on the ground and in the air through continual product and service improvements. The Company’s continued investment in new aircraft and on-board products across its fleet demonstrates its commitment to customer service and further strengthens its brand and services. The Company has been selected as one of the BrandZ™ Top 30 Most Valuable Chinese Brands for the sixth consecutive year since 2010. In the first half of 2017, the Company was once again selected as one of the BrandZ™ Top 500 Most Valuable Global Brands. It also received the “Best China Airline” award at the “Travel Trade Gazette China Tourism Awards” for the third consecutive year. The Company believes that the quality of the service which it offers and the strength of its brand are critical to its continuing success and intends to continue focusing on developing its brand and improve its customer service.

STRATEGIES

In addition to pursuing the above competitive strengths, the Company’s core strategies are to continue to:

- expand and optimise flight connectivity through the Company’s Shanghai hub and code sharing arrangements with alliance partners;
- further promote the China Eastern Airlines brand as a premium brand in China;
- further promote value-added services to its passengers by leveraging on the SkyTeam brand;
- train and support its network of domestic sales agents and representatives;
- develop integrated product packages with strategic partners, such as the Shanghai Rail Bureau;
- develop high-end markets through selective targeting of group customers;
- further improve cost structure and enhance productivity; and
- further pursue industry best practices in operations and management.

THE ISSUE

The following is a summary of the terms of the offering and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Unless otherwise defined in this Offering Circular, words and expressions defined in “Terms and Conditions of the Bonds” shall have the same meanings in this summary. For a more complete description of the terms of the Bonds, see “Terms and Conditions of the Bonds”.

Issuer	Eastern Air Overseas (Hong Kong) Corporation Limited
Guarantor	China Eastern Airlines Corporation Limited
Issue	SGD[●] aggregate principal amount of [●] per cent. Guaranteed Bonds due [●].
Guarantee	The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed, as further described in Condition 2 of the Terms and Conditions of the Bonds.
Issue Price	[●] per cent.
Form and Denomination	The Bonds will be issued in registered form in the denomination of SGD250,000.
Interest	The Bonds will bear interest from and including [●] 2017 at the rate of [●] per cent. per annum, payable semi-annually in arrear in equal instalments of SGD[●] per SGD250,000 in principal amounts of the Bonds on [●] and [●] in each year, commencing on [●] 2018.
Issue Date	[●] 2017.
Maturity Date	Interest Payment Date falling in or nearest to [●].
Status of the Bonds	The Bonds constitute direct, unsubordinated, unconditional and, subject to Condition 4(a) of the Terms and Conditions of the Bonds, unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with its other present and future unsecured and unsubordinated obligations.
Status of the Guarantee	The Guarantee constitutes direct, unsubordinated, unconditional and, subject to Condition 4(a) of the Terms

and Conditions of the Bonds, unsecured obligations of the Guarantor. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with its other present and future unsecured and unsubordinated obligations.

Negative Pledge

The Bonds will contain a negative pledge provision as further described in Condition 4(a) of the Terms and Conditions of the Bonds.

Events of Default

The Bonds will contain certain events of default provisions as further described in Condition 9 of the Terms and Conditions of the Bonds.

Taxation

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong, the PRC or, in each case, any authority therein or thereof having power to tax, unless such withholding or deduction is required by law, as further described in Condition 8 of the Terms and Conditions of the Bonds. In such event, the Issuer or, as the case may be, the Guarantor shall, subject to the limited exceptions specified in the Terms and Conditions of the Bonds, pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.

Final Redemption

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.

Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount, together with accrued but unpaid interest, at any time in the event of certain changes affecting taxes of Hong Kong or the PRC or, in each case, any political subdivision or any authority thereof or therein having power to tax, as further described in Condition 6(b) of the Terms and Conditions of the Bonds.

Redemption for Change of Control

A Bondholder will have the right, at such Bondholder's option, to require the Issuer to redeem all, but not some

only, of that Bondholder's Bonds at 101 per cent. of their principal amount, together with accrued interest up to, but excluding the relevant Put Date, upon the occurrence of a Change of Control with respect to the Guarantor. See Condition 6(c) of the Terms and Conditions of the Bonds.

Redemption for No Registration

A Bondholder will have the right, at such Bondholder's option, to require the Issuer to redeem all, but not some only, of that Bondholder's Bonds at their principal amount, together with accrued interest up to, but excluding the relevant Put Date, upon the occurrence of a No Registration Event. See Condition 6(c) of the Terms and Conditions of the Bonds.

Clearing Systems

The Bonds will be represented by interests in the Global Certificate, which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depository for Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

International Securities Identification Number ("ISIN")

XS[●].

Common Code

[●].

Governing Law

English law.

Trustee

DB Trustees (Hong Kong) Limited.

Principal Paying Agent, Registrar and Transfer Agent

Deutsche Bank AG, Hong Kong Branch.

Listing

Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only. It is expected that dealing in and listing of the Bonds on the Hong Kong Stock Exchange will commence on [●].

Further Issues

Subject to compliance with the undertaking in Condition 4(b), the Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects

(or in all respects except for the first payment of interest) so as to form a single series with the Bonds, as further described in Condition 15 of the Terms and Conditions of the Bonds.

Use of Proceeds

See section entitled “Use of Proceeds”.

Selling Restrictions

The Bonds will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Subscription and Sale”.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Guarantor as at and for the periods indicated.

Selected Financial Information of the Guarantor

The summary audited consolidated financial information as at and for the years ended 31 December 2015 and 2016 set forth below is derived from the Guarantor's published audited consolidated financial statements for the year ended 31 December 2016, prepared and presented in accordance with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance (which have been audited by Ernst & Young, certified public accountants, and are included elsewhere in this Offering Circular) and should be read in conjunction with such published audited consolidated financial statements and the notes thereto. The summary unaudited consolidated financial information for the six months ended 30 June 2016 and 2017 and as at 30 June 2017 set forth below is derived from the Guarantor's published unaudited consolidated financial statements for the six months ended 30 June 2017, prepared and presented in accordance with IFRS (the unaudited consolidated financial statements for the six months ended 30 June 2017 have been reviewed by Ernst & Young, certified public accountants, and are included elsewhere in this Offering Circular) and should be read in conjunction with such published unaudited consolidated financial statements and the notes thereto.

Consolidated Income Statement Data (prepared and presented in accordance with IFRS)

	Year ended 31 December		Six months ended 30 June	
	2015 (audited)	2016 (audited)	2016 (unaudited)	2017 (unaudited)
	(RMB million)			
Revenues	93,969	98,904	46,335	48,423
Other operating income and gains	5,269	5,469	2,772	4,766
Gain on fair value changes of derivative financial instruments	<u>6</u>	<u>2</u>	<u>2</u>	<u>—</u>
	<u>99,244</u>	<u>104,375</u>	<u>49,059</u>	<u>53,189</u>
Operating expenses				
Aircraft fuel	(20,312)	(19,626)	(8,363)	(12,139)
Take-off and landing charges	(10,851)	(12,279)	(5,794)	(6,430)
Depreciation and amortisation	(10,471)	(12,154)	(5,801)	(6,547)
Wages, salaries and benefits	(16,459)	(18,145)	(8,314)	(8,860)
Aircraft maintenance	(4,304)	(4,960)	(2,259)	(2,165)
Impairment charges	(228)	(29)	(3)	(9)
Food and beverages	(2,469)	(2,862)	(1,401)	(1,501)
Aircraft operating lease rentals	(4,254)	(4,779)	(2,317)	(2,235)
Other operating lease rentals	(812)	(868)	(345)	(401)
Selling and marketing expenses	(3,651)	(3,133)	(1,631)	(1,593)
Civil aviation development fund	(1,826)	(1,945)	(945)	(1,004)
Ground services and other expenses	(5,479)	(5,058)	(2,769)	(1,916)
Indirect operating expenses	<u>(5,503)</u>	<u>(6,051)</u>	<u>(2,009)</u>	<u>(2,059)</u>
Total operating expenses	<u>(86,619)</u>	<u>(91,889)</u>	<u>(41,951)</u>	<u>(46,859)</u>

	Year ended 31 December		Six months ended 30 June	
	2015 (audited)	2016 (audited)	2016 (unaudited)	2017 (unaudited)
	(RMB million)			
Operating profit	12,625	12,486	7,158	6,330
Share of results of associates	126	148	73	113
Share of results of jointly ventures	26	39	23	31
Finance income	66	96	34	703
Finance costs	(7,176)	(6,272)	(2,717)	(1,404)
Profit before income tax	5,667	6,497	4,571	5,773
Income tax expense	(624)	(1,542)	(1,041)	(1,152)
Profit for the year/period	<u>5,043</u>	<u>4,955</u>	<u>3,530</u>	<u>4,621</u>
Other comprehensive income for the year/period				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>				
Cash flow hedges, net of tax	10	107	(178)	(137)
Fair value movements of available-for-sale investments, net of tax	87	40	35	99
Fair value movements of available-for-sale investments held by an associate, net of tax	7	(1)	(7)	5
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<u>104</u>	<u>146</u>	<u>(150)</u>	<u>(33)</u>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>				
Actuarial (losses)/gains on the defined benefit plan	196	(410)	30	184
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	<u>196</u>	<u>(410)</u>	<u>30</u>	<u>184</u>
Other comprehensive income, net of tax	<u>300</u>	<u>(264)</u>	<u>(120)</u>	<u>151</u>
Total comprehensive income for the year/ period	<u>5,343</u>	<u>4,691</u>	<u>3,410</u>	<u>4,772</u>
Profit attributable to:				
Equity holders of the Company	4,537	4,498	3,230	4,341
Non-controlling interests	506	457	300	280
Profit for the year/period	<u>5,043</u>	<u>4,955</u>	<u>3,530</u>	<u>4,621</u>
Total comprehensive income attributable to:				
Equity holders of the Company	4,834	4,237	3,107	4,486
Non-controlling interests	509	454	303	286
Total comprehensive income for the year/period	<u>5,343</u>	<u>4,691</u>	<u>3,410</u>	<u>4,772</u>
Earnings per share attributable to the equity holders of the Company during the year/period				
— Basic and diluted (RMB)	<u>0.35</u>	<u>0.33</u>	<u>0.25</u>	<u>0.30</u>

Consolidated Balance Sheet Data
(prepared and presented in accordance with IFRS)

	As at 31 December		As at 30 June
	2015 (audited)	2016 (audited)	2017 (unaudited)
	(RMB million)		
Non-current assets			
Intangible assets	11,522	11,624	11,592
Property, plant and equipment	133,242	153,180	158,117
Investment properties	294	321	315
Lease prepayments	2,094	2,064	1,734
Advanced payments on acquisition of aircraft	21,207	23,357	25,032
Investments in associates	1,543	1,536	1,611
Investments in joint ventures	518	524	555
Available-for-sale investments	452	645	777
Other non-current assets	3,754	2,969	2,521
Deferred tax assets	243	79	84
Derivative financial instruments	45	137	87
	<u>174,914</u>	<u>196,436</u>	<u>202,425</u>
Current assets			
Flight equipment spare parts	2,056	2,248	2,353
Trade and notes receivables	2,867	2,660	2,867
Prepayments and other receivables	8,446	9,231	9,706
Derivative financial instruments	—	11	11
Restricted bank deposits and short-term bank deposits	35	43	40
Cash and cash equivalents	9,080	1,695	8,563
Assets classified as held for sale	594	—	—
	<u>23,078</u>	<u>15,888</u>	<u>23,540</u>
Current liabilities			
Sales in advance of carriage	5,841	7,677	7,190
Trade and bills payables	3,712	3,376	3,119
Other payables and accruals	19,057	20,250	18,239
Current portion of obligations under finance leases	6,109	6,447	7,123
Current portion of borrowings	38,214	28,842	40,176
Income tax payable	169	304	323
Current portion of provision for return condition checks for aircraft under operating leases	1,281	1,175	904
Derivative financial instruments	4	11	149
	<u>74,387</u>	<u>68,082</u>	<u>77,223</u>
Net current liabilities	<u>(51,309)</u>	<u>(52,194)</u>	<u>(53,683)</u>
Total assets less current liabilities	<u>123,605</u>	<u>144,242</u>	<u>148,742</u>

	As at 31 December		As at 30 June
	2015 (audited)	2016 (audited)	2017 (unaudited)
	(RMB million)		
Non-current liabilities			
Obligations under finance leases	46,290	54,594	57,298
Borrowings	28,498	27,890	25,842
Provision for return condition checks for aircraft under operating leases	2,222	2,495	1,947
Other long-term liabilities	3,990	3,874	3,836
Post-retirement benefit obligations	2,569	2,890	2,510
Deferred tax liabilities	8	86	68
Derivative financial instruments	97	47	38
	<u>83,674</u>	<u>91,876</u>	<u>91,539</u>
Net Assets	<u>39,931</u>	<u>52,366</u>	<u>57,203</u>
Equity			
Equity attributable to the equity holders of the Company			
— Share capital	13,140	14,467	14,467
— Reserves	<u>24,271</u>	<u>34,983</u>	<u>39,469</u>
	<u>37,411</u>	<u>49,450</u>	<u>53,936</u>
Non-controlling interests	<u>2,520</u>	<u>2,916</u>	<u>3,267</u>
Total equity	<u>39,931</u>	<u>52,366</u>	<u>57,203</u>

Selected Financial Information of the Issuer

The summary audited consolidated financial information as at and for the years ended 31 December 2015 and 2016 set forth below is derived from the Issuer's audited consolidated financial statements for the year ended 31 December 2016, prepared and presented in accordance with Hong Kong Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance (which have been audited by Ernst & Young, certified public accountants, and are included elsewhere in this Offering Circular). The summary unaudited consolidated financial information for the six months ended 30 June 2016 and 2017 and as at 30 June 2017 set forth below is derived from the Issuer's unaudited consolidated financial statements for the six months ended 30 June 2017, prepared and presented in accordance with Hong Kong Financial Reporting Standards.

Statement of Profit or Loss and Other Comprehensive Income
(prepared and presented in accordance with Hong Kong Financial Reporting Standards)

	Year ended 31 December 2015 (audited)	Year ended 31 December 2016 (audited)	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2017 (unaudited)
	(RMB)			
Revenue	2,766,564,063	2,884,400,140	1,229,520,889	1,658,788,548
Cost of sales	(2,519,074,646)	(2,689,189,353)	(1,124,541,258)	(1,572,394,623)
Gross profit	247,489,417	195,210,787	104,979,631	86,393,925
Other income and gains	120,674,168	175,832,314	125,436,492	47,343,968
Administrative expenses	(703,125)	(4,039,561)	(59,731)	(768,741)
Other expenses	—	(19,528,073)	(13,451,859)	—
Finance costs	(247,241,242)	(257,653,387)	(192,577,558)	(135,548,290)
Profit/(loss) before income tax	120,219,218	89,822,080	24,326,975	(2,579,138)
Income tax expense	(19,836,166)	(14,820,643)	(4,013,951)	—
Profit/(loss) for the year/period	100,383,052	75,001,437	20,313,024	(2,579,138)
Other comprehensive income for the year/ period				
Other comprehensive income to be reclassified to profit or loss in subsequent periods	—	—	—	(34,015,428)
Total comprehensive income/(loss) for the year/period	100,383,052	75,001,437	20,313,024	(36,594,566)

Statement of Financial Position
(prepared and presented in accordance with Hong Kong Financial Reporting Standards)

	31 December 2015 (audited)	31 December 2016 (audited)	30 June 2017 (unaudited)
	(RMB)		
Current assets			
Amount due from related parties	8,141,919,151	7,196,324,693	5,469,804,384
Cash and cash equivalents	840,627,367	247,065,542	1,008,969,647
Total current assets	8,982,546,518	7,443,390,325	6,478,774,031
Current liabilities			
Interest-bearing bank borrowings	3,084,416,800	4,000,000,000	3,042,329,584
Interest payable	53,531,718	16,396,209	29,652,726
Amount due to related parties	9,946,755	—	—
Tax payable	23,294,097	38,114,740	20,491,572
Other payables	7,713	7,713	7,713
Debentures	2,199,418,049	—	—
Derivative financial instruments	—	—	40,737,040
Total current liabilities	<u>5,370,615,132</u>	<u>4,054,518,662</u>	<u>3,133,218,635</u>
Net current assets	<u>3,611,931,386</u>	<u>3,388,871,573</u>	<u>3,345,555,396</u>
Total assets less current liabilities	<u>3,611,931,386</u>	<u>3,388,871,573</u>	<u>3,352,277,007</u>
Non-current liabilities			
Interest-bearing bank borrowings	—	3,000,000,000	3,000,000,000
Debentures	3,298,061,250	—	—
Total non-current liabilities	<u>3,298,061,250</u>	<u>3,000,000,000</u>	<u>3,000,000,000</u>
Net assets	<u>313,870,136</u>	<u>388,871,573</u>	<u>352,277,007</u>
Equity			
Share capital	230,269,800	230,269,800	230,269,800
Capital reserve	(3,784,369)	(3,784,369)	(37,799,797)
Retained profits	87,384,705	162,386,142	159,807,004
Total equity	<u>313,870,136</u>	<u>388,871,573</u>	<u>352,277,007</u>

Quarterly Financial Information

On 26 October 2017, the Guarantor published its quarterly report (the “Quarterly Report”) for the nine months ended 30 September 2017 (the “Third Quarter”) in accordance with applicable PRC regulations in relation to disclosure of information in quarterly reports for listed companies. The Quarterly Report contains certain consolidated financial information of the Guarantor for the third quarter prepared in accordance with the PRC Accounting Standards.

In the Quarterly Report, the Guarantor reported an increase in investment income, an increase in monetary capital and an increase in dividend receivables in the Third Quarter as compared to the same period in 2016. The increase in investment income was primarily attributable to the disposal of 100 per cent. equity interest in Eastern Logistics. The increase in monetary capital in the Third Quarter as compared to the third quarter of 2016 was primarily due to the enhancement of the Guarantor's liquidity, lowering of financial risks and the increase in cash and cash equivalents as at the end of the period. The Guarantor also reported an increase of dividend receivables during the Third Quarter as compared to the same period of 2016 due primarily to the increase in distribution of dividends receivable from associates of the Guarantor.

The summary consolidated financial information as at and for the nine months ended 30 September 2016 and 2017 set forth in the Quarterly Report has been prepared and presented in accordance with PRC Accounting Standards and has not been audited or reviewed by the Guarantor's auditor. Consequently, such consolidated quarterly financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors must exercise caution when using such information to evaluate the Guarantor's financial condition, results of operations and results (financial or otherwise). Such consolidated quarterly financial information as at and for the three months ended 30 September 2017 should not be taken as an indication of the expected financial condition, results of operations and results of the Guarantor for the full financial year ending 31 December 2017.

Significant Differences Between IFRS And PRC Accounting Standards

The Guarantor's accounting policies, which conform with IFRS, differ in certain aspects from PRC Accounting Regulations. Differences between IFRS and PRC Accounting Standards which have a significant effect on the consolidated profit attributable to the parent and consolidated net assets of the Guarantor are summarised as follows:

- (a) Under the PRC Accounting Standards, on or before 30 June 2001, depreciation of aircraft was calculated to write off their costs on a straight-line basis over their expected useful lives of 10 to 15 years to their residual values of 3 per cent. With effect from 1 July 2001, depreciation of aircraft under the PRC Accounting Standards is calculated to write off their costs on a straight-line basis over their expected useful lives of 15 to 20 years to their residual values of 5 per cent. of costs, the change was applied prospectively which resulted in the difference in the carrying amounts under IFRS and the PRC Accounting Standards. These differences will be reduced progressively in the coming years, and will be fully eliminated when the related assets are fully depreciated or disposed.
- (b) The recognition and measurement of the fair values of the acquisition costs and identifiable assets and liabilities of Shanghai Airlines acquired are different under IFRS and the PRC Accounting Standards, which result in difference in the intangibles/goodwill recognised arising from the acquisition.
- (c) Differences as described above also have the corresponding impact on deferred tax.

The above analysis is prepared by and is the responsibility of the management of the Company. It is not meant to be an exhaustive description of all significant differences between IFRS and PRC Accounting Standards. In making an investment decision, investors must rely upon their own examination of the Company, the Terms and Conditions of the Bonds and the financial information

included herein. Potential investors should consult their own professional advisers for an understanding of any differences that may exist between IFRS and PRC Accounting Standards, and how those differences might affect the financial information included herein.

RISK FACTORS

In addition to other information in this Offering Circular, you should carefully consider the following risk factors, together with all other information contained in this Offering Circular (including the financial statements and the notes thereto), before purchasing the Bonds. The risks and uncertainties described below may not be the only ones that the Company faces. Additional risks and uncertainties that the Company is not aware of or that the Company currently believes are immaterial may also adversely affect its business, financial condition or results of operations. If any of the possible events described below occur, the Company's business, financial condition or results of operations could be materially and adversely affected, the trading price of the Bonds could decline and investors may lose all or part of their investment.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

RISKS RELATING TO THE COMPANY

The Company's indebtedness and other financial obligations may have a material adverse effect on its liquidity and operations.

The Company has a substantial amount of debt, lease and other financial obligations, and will continue to have such obligations in the future. As at 30 June 2017, the Company's total liabilities were RMB168,762 million and its current liabilities exceeded its current assets by approximately RMB53,683 million. The Company's total interest-bearing liabilities (including long-term and short-term borrowings, finance leases payable and bonds payable) for each of the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 were RMB119,111 million, RMB117,773 million, and RMB130,439, respectively, of which short-term liabilities accounted for 37.2 per cent., 30.0 per cent. and 36.3 per cent., respectively. The Company's substantial indebtedness and other financial obligations could materially and adversely affect its business and operations, including requiring it to dedicate additional cash flow from operations to the payment of principal and interest on its indebtedness, thereby reducing the funds available for operations, maintenance and service improvements and future business opportunities, increasing its vulnerability to economic recessions, reducing its flexibility in responding to changing business and economic conditions, placing it at a disadvantage compared to competitors with lower debt, limiting its ability to arrange for additional financing for working capital, capital expenditures and other general corporate purposes, at all or on terms that are acceptable to the Company.

Moreover, the Company is largely dependent upon cash flows generated from its operations and external financing (including short-term bank loans) to meet its debt repayment obligations and working capital requirements, which may reduce the funds available for other business purposes. If the Company's operating cash flow is materially and adversely affected by factors such as increased competition, a significant decrease in demand for its services or a significant increase in jet fuel prices, its liquidity would be materially and adversely affected. The Company has arranged financing with domestic and foreign banks in China in order to meet its working capital requirements. The Company has also tried to ensure its liquidity by structuring a substantial portion of its short-term bank loans to be rolled over upon maturity. However, there is no assurance that such measures would be sufficient to meet the Company's debt payment obligation and working capital requirements at any time and the Company may not be able to roll-over or refinance its existing debts. The Company's ability to obtain financing may be affected by its financial position and leverage, its credit rating and investor

perception of the aviation industry, as well as prevailing economic conditions and the cost of financing in general. If the Company is unable to obtain adequate financing for its capital requirements, its liquidity and operations would be materially and adversely affected.

In addition, the airline industry overall is characterised by a high degree of operating leverage. Due to high fixed costs, including payments made in connection with aircraft leases, and landing and infrastructure fees which are set by government authorities and not within the Company's control, the expenses relating to flight operations do not vary proportionately with the number of passengers carried, whilst 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 disproportionately higher decrease in profits.

The Company may not be able to secure future financing at terms acceptable to it or at all.

The Company requires significant amounts of external financing to meet its capital commitments for acquiring and upgrading aircraft and flight equipment and for other general corporate needs. In addition, the Company generally acquires aircraft through either long-term capital leases or operating leases. In the past, the Company has obtained guarantees from Chinese banks in respect of payments under its foreign loan and capital lease obligations. However, the Company can give no assurance that it will be able to roll over its bank facilities or continue to obtain bank guarantees in the future. The unavailability of credit facilities or guarantees from Chinese banks or the increased cost of such guarantees may materially and adversely affect its ability to borrow additional funds or enter into international aircraft lease financings or other additional financing on acceptable terms. In addition, if the Company is not able to arrange financing for its aircraft on order, the Company may seek to defer aircraft deliveries or use cash from operations or other sources to acquire the aircraft.

The Company's ability to obtain financing may also be impaired by its financial position, its leverage and its credit rating. In addition, factors beyond its control, such as recent global market and economic conditions, volatile oil prices, and the tightening of credit markets, may result in limited availability of financing and increased volatility in credit and equity markets, which may materially adversely affect its ability to secure financing at reasonable costs or at all. If the Company is unable to obtain financing for a significant portion of its capital requirements, its ability to expand its operations, purchase new aircraft, pursue business opportunities which it believes to be desirable, withstand any future downturn in its business, or respond to increased competition or changing economic conditions may be impaired. The Company has and in the future is likely to continue to have substantial debt. As a result, the interest cost associated with this indebtedness might impair its future profitability and cause its earnings to be subject to a higher degree of volatility.

The Company is subject to the risk of fuel price fluctuations.

Aircraft fuel cost constitutes the most significant part of the Company's operating costs. For each of the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Company's total aircraft fuel cost was RMB20,312 million, RMB19,626 million and RMB12,139 million, respectively, accounting for approximately 23.4 per cent., 21.4 per cent. and 25.9 per cent., respectively, of its total operating costs during those periods. The fluctuations of international crude oil prices and adjustments on domestic jet fuel prices by the NDRC have a significant impact on the Company's profitability. The Company's results of operations and financial condition are affected by any significant fluctuations that may occur, which are generally due to factors beyond its control. As such, the Company generally counters the pressure from the rise in operating costs arising from the increase in aviation fuel by imposing fuel surcharges, which are

subject to government regulations. In order to control fuel costs, the Company had 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 prior years.

Since 2009, the PRC government has been requiring prior governmental approval for entering into fuel hedging contracts. The Company may, from time to time, seek approval from the PRC government to enter into overseas fuel hedging contracts. 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. A significant decline in fuel prices may substantially increase the costs associated with such fuel hedging arrangements. In addition, where the Company may, from time to time, seek to manage the risk of fuel price increases by using derivative contracts, there is no assurance that, at any given point in time, such fuel hedging transactions will provide any particular level of protection against increased fuel costs. In 2016 and the first half of 2017, the Company did not engage in any aviation fuel hedging activities and all fuel hedging contracts signed in prior years had been settled before 30 June 2017.

The Company is subject to the risk of exchange rate fluctuation.

The Company operates its business in many countries and territories. The Company generates revenue in different currencies and its foreign currency liabilities are typically much higher than its foreign currency assets. The Company's purchases and leases of aircraft are mainly priced and settled in foreign currencies such as U.S. dollars. Fluctuations in exchange rates will affect the Company's costs incurred from foreign currency purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. For each of the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Company's total interest-bearing liabilities denominated in foreign currencies amounted to RMB89,342 million, RMB59,980 million and RMB53,573 million, respectively, of which U.S. dollar liabilities accounted for 97.7 per cent., 88.1 per cent. and 83.1 per cent. of the total amount, respectively. Therefore, a significant fluctuation in the U.S. dollar exchange rates will subject the Company to significant foreign exchange loss/gain arising from the exchange of foreign currency denominated liabilities, which would affect its profitability and business development. The Company typically uses hedging contracts for foreign currencies to reduce the foreign exchange risks for foreign currency revenues generated from flight ticket sales and expenses required to be paid in foreign currencies. As at 31 December 2016 and 30 June 2017, the outstanding foreign currency hedging contracts held by the Company amounted to a notional amount of US\$440 million and US\$1,244 million, which will expire between the second half of 2017 and 2018.

For each of the two years ended 31 December 2015 and 2016, the Company recorded net foreign exchange losses of RMB4,987 million and RMB3,573 million, respectively. As a result of the large value of existing net foreign currency liabilities denominated in U.S. dollars, the Company's results would be adversely affected if the Renminbi depreciates against the U.S. dollar or the rate of appreciation of the Renminbi against the U.S. dollar decreases in the future. Since early 2015, the Company expanded its financing channels by issuing super short-term commercial paper and entering into financings in Renminbi, and proactively optimized the mix of currency denomination of its debts.

The Company is subject to the risk of interest rate fluctuation.

The Company's total interest-bearing liabilities (including long-term and short-term loans and finance leases payable) for each of the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, were RMB119,111 million, RMB117,773 million and RMB130,439 million, respectively, of which short-term liabilities accounted for 37.2 per cent., 30.0 per cent. and 36.3 per cent., respectively, and long-term liabilities accounted for 62.8 per cent., 70.0 per cent. and

63.7 per cent., respectively. A portion of the long-term interest-bearing liabilities carried variable interest rates. Both the Company's variable and fixed rate obligations are affected by fluctuations in current market interest rates.

The Company's interest-bearing liabilities are mainly denominated in U.S. dollars and Renminbi. As at 31 December 2015 and 2016 and 30 June 2017, its liabilities denominated in U.S. dollars accounted for 55.3 per cent., 88.1 per cent. and 83.1 per cent. respectively, of its total liabilities. Fluctuations in U.S. dollar and Renminbi interest rates have significantly affected the Company's financing costs. As at 31 December 2016 and 30 June 2017, the notional amounts of the outstanding interest rate swap agreements of the Company were US\$1,636 million and US\$1,528 million, respectively. These agreements will expire between 2018 and 2025. A substantial majority of the Company's borrowings denominated in Renminbi are linked to benchmark five-year lending rates published by the PBOC. A substantial majority of the Company's borrowings denominated in U.S. dollars are linked to floating LIBOR rates which increased overall in 2015 and 2016. The relevant lending rates may increase in the future as a result of reasons beyond the Company's control, and may result in an adverse effect on its business, prospects, cash flow, financial condition and results of operations. In addition, the Company expects to issue bonds and notes or enter into additional loan agreements and aircraft leases in the future to fund its operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates.

The Company may suffer losses in the event of an accident or incident involving its aircraft or the aircraft of any other airline.

As an airline company operating a large fleet, an accident or incident involving one of the Company's aircraft could result in delays or require repair or replacement of a damaged aircraft, which could result in consequential temporary or permanent losses from disruption of service and/or significant liability to injured passengers and others. Unforeseeable or unpredictable events such as inclement weather, mechanical failures, human errors, aircraft and equipment defects or failures and other force majeure events may affect flight safety, which could result in accidents and/or incidents of passenger injuries or deaths that could lead to significant injury and loss claims. Although the Company believes that it currently maintains liability insurance in amounts and of the types generally consistent with industry practice, the amounts of such coverage may not be adequate to fully cover the costs related to an accident or incident, which could adversely affect its results of operations and financial condition. In addition, any aircraft accident or incident, even if fully insured, could cause a public perception that the Company is not as safe or reliable as other airlines, which would harm its competitive position and result in a decrease in its operating revenues. Moreover, a major accident or incident involving an aircraft of any of the Company's competitors may cause the demand for air travel in general to decrease. In 2014, certain of its competitors in the Asia Pacific region experienced major aircraft accidents and incidents, some of which involved destinations and routes that the Company covers. These accidents and incidents were highly publicized in the media and may have affected public perception of the safety of certain air travel routes. The occurrence of any of the foregoing could adversely affect the Company's results of operations and financial condition.

The Company's insurance coverage and costs have increased substantially, and could have an adverse effect on its operations.

Due to the events of 11 September 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. At the same time, they have significantly increased the premiums for such coverage, as well as for aviation insurance in general. In response to the reduced insurance coverage from aviation insurers, the

PRC government has provided insurance coverage to PRC airlines for third-party war liability claims. Such insurance provided by the government is subject to annual review and approval by the government. The Company renews its insurance policies on a yearly basis. However, if the insurers further reduce the amount of insurance coverage available or increase the premium for such coverage when the Company renews its insurance coverage and/or if the PRC government declines to renew its insurance coverage for the Company, the Company's financial condition and results of operations may be materially and adversely affected.

The Company may not be successful in its development and expansion plans.

As the Company expands to new international markets, carries out external investments, mergers and acquisitions and conducts structural adjustments in its existing businesses and assets, it may face risks including business decision making, laws, management and competition risks which may affect the results of implementing the development and expansion strategies of the Company. The Company has been exploring the e-commerce market to reduce aviation operation costs and innovative asset management methods, and has commenced structural adjustments in its existing businesses and assets, with new requirements for the overall operating management abilities of the Company. Some of the Company's transformation projects or adjusted businesses may not achieve expected results. If the Company is unable to complete its development and expansion plans successfully, the Company's financial condition, results of operations and future growth may be materially and adversely affected.

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

The Company may from time to time expand its business through acquisitions of airline companies or airline-related businesses. For example, the Company entered into an agreement with Shanghai Airlines on 10 July 2009 to issue a maximum of 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. The acquisition price was RMB9,118 million, which was determined based on the quoted market price of the Company's shares issued as at the date nearest to the acquisition date, with adjustments to reflect specific restrictions to certain shares that were issued. On 28 January 2010, the Company completed the exchange of 1,694,838,860 A Shares for all existing issued shares of Shanghai Airlines. In addition, on 20 December 2010, the Company's subsidiary, China Cargo Airlines Co., Ltd. ("**China Cargo Airlines**"), entered into separate acquisition agreements with Great Wall Airlines Company Limited ("**Great Wall Airlines**") and Shanghai Airlines Cargo Int'l Co., Ltd. to acquire each carrier's cargo business and related assets. China Cargo Airlines also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. These acquisitions and the acquisition of Great Wall Airlines have obtained the approval from CAAC, NDRC, and the Ministry of Commerce ("**MOFCOM**"), and were completed on 1 June 2011. Lastly, the Company entered into an equity transfer agreement on 22 August 2012 with its controlling shareholder, CEA Holding, by which the Company acquired the remaining 20 per cent. of the equity interest in China United Airlines for a consideration of RMB83.95 million (the "**China United Airlines Acquisition**") from CEA Holding. China United Airlines primarily provides domestic passenger and freight air transportation services, and is now a wholly-owned subsidiary of the Company.

The Company is devoting significant resources to the integration of its operations in order to achieve the anticipated synergies and benefits of the absorption and acquisitions mentioned above. However, such acquisitions involve uncertainties and a number of risks, including:

- difficulty with integrating the assets, operations and technologies of the acquired airline companies or airline-related businesses, including their employees, corporate cultures,

managerial systems, processes and procedures and management information systems and services;

- complying with the laws, regulations and policies that are applicable to the acquired businesses;
- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airline companies or airline-related businesses;
- managing relationships with employees, customers and business partners during the course of integration of new businesses;
- attracting, training and motivating members of its management and workforce;
- accessing its debt, equity or other capital resources to fund acquisitions, which may divert financial resources otherwise available for other purposes;
- diverting significant management attention and resources from its other businesses;
- strengthening its operational, financial and management controls, particularly those of its newly acquired assets and subsidiaries, to maintain the reliability of its reporting processes;
- difficulty with exercising control and supervision over the newly acquired operations, including failure to implement and communicate its safety management procedures resulting in additional safety hazards and risks;
- increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airline companies or airline-related businesses; and
- the risk that any such acquisitions may not complete due to failure to obtain the required government approvals.

There is no assurance that the Company will not have difficulties in assimilating the operations, technologies, services and products of newly acquired companies or businesses. Moreover, the continued integration of Shanghai Airlines, China United Airlines and other acquisitions into the Company depends significantly on integrating the pre-absorption of Shanghai Airlines and other acquired employee groups with its employee groups and on maintaining productive employee relations. In the event that the Company is unable to efficiently and effectively integrate newly acquired companies or airline-related businesses, the Company 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 its existing businesses.

The Company operates in a highly competitive industry.

The Company faces intense competition in each of the domestic, regional and international markets that the Company serves. In its domestic markets, the Company competes against airlines that have the same routes, including smaller domestic airlines with lower operating costs. In its regional and international markets, the Company competes against international airline companies, international air alliances and logistics companies, such as UPS, FedEx, and DHL, that have significantly longer operating histories, better brand recognition, more resources or larger sales networks than the Company's sales network or utilise more developed reservation systems than the Company's

reservation systems. The public's perception of the safety records of Chinese airlines could also materially and adversely affect its ability to compete against its international competitors. To stay competitive, the Company has, from time to time, lowered airfares for certain of its routes, and may continue to do so in the future. Increased competition and pricing pressures may have a material adverse effect on the Company's financial condition and results of operations.

The Company may be unable to retain key management personnel or pilots.

The Company is dependent on the experience and industry knowledge of its key management personnel and pilots, and there can be no assurance that the Company will be able to retain them. Any inability to retain its key management personnel or pilots, or attract and retain additional qualified management personnel or pilots, could have a negative impact on the Company's operations and profitability.

The Company's controlling shareholder, CEA Holding, holds a majority interest in the Company, and its interests may not be aligned with other shareholders.

Most of the major airline companies in China are currently majority-owned either by the central government of China or by provincial or municipal governments in China. For each of the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, CEA Holding held, directly or indirectly, 62.08 per cent., 56.38 per cent. and 56.38 per cent., respectively, of the Company's equity interests on behalf of the PRC government. As a result, CEA Holding could potentially elect the majority of the Company's Board of Directors and otherwise be able to control it. CEA Holding also has sufficient voting control to effect transactions without the concurrence of the Company's minority shareholders. The interests of the PRC government as the ultimate controlling person of the Company and most of the other major PRC airlines could conflict with the interests of the Company's minority shareholders. Although the CAAC currently has a policy of equal treatment of all PRC airlines, the Company can give no assurance that the CAAC will not favour other PRC airlines over the Company.

As a controlling shareholder, CEA Holding has the ability to exercise a controlling influence over the Company's 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 the Company.

The Company engages in related party transactions, which may result in a conflict of interests.

The Company has 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 which the Company receives a number of important services, including support for in-flight catering and assistance with importation of aircraft, flight equipment and spare parts. Since the Company is controlled by CEA Holding and CEA Holding may have interests that may conflict with the Company's interests, there is no assurance that CEA Holding will not take actions that will serve its interests or the interests of its other members over the Company's interests.

The Company may not be able to accurately report its financial results or prevent fraud if the Company fails to maintain effective internal controls over financial reporting, resulting in adverse investor perception, which in turn could have a material adverse effect on its reputation.

The Company is required under relevant United States securities rules and regulations to disclose in the reports that it files or submits under the Exchange Act to the United States Securities and Exchanges Commission (the “SEC”), including its annual report on Form 20-F, a management report assessing the effectiveness of its internal control over financial reporting as at the end of the fiscal year. The Company’s registered public accounting firm is also required to provide an attestation report on the effectiveness of its internal controls over financial reporting. The Company’s management concluded that its internal controls over financial reporting were effective as at 31 December 2016. However, the Company may discover other deficiencies or material weaknesses in the course of its future evaluation of its internal controls over financial reporting and the Company may be unable to address and rectify such deficiencies in a timely manner. Any failure to maintain effective internal controls over financial reporting could lead to a decline in investor confidence in the reliability of its consolidated financial statements, thereby adversely affecting its business, operations, and reputation, including negatively affecting its market performance in the securities markets and decreasing potential opportunities to obtain financing in the capital markets.

As part of its business strategy, the Company has adopted various measures for the internationalisation of its business and to enhance its competitiveness in the international long-distance flight routes. Due to the differences in certain legal and market environments, the Company has encountered certain challenges during the course of developing its overseas business. The Company has already adopted and will continue to implement measures in order to enhance the internal control of its overseas offices and to ensure the continued development of its overseas business.

Any failure or disruption of the Company’s computer, communications, flight equipment or other technology systems could have an adverse impact on its business operations, profitability, reputation and customer services.

The Company relies heavily on computer, communications, flight equipment and other technology systems to operate its business and enhance its customer service. Substantially all of its tickets are issued to passengers as electronic tickets, and the Company depends on its computerised reservation system to issue, track and accept these electronic tickets. In addition, the Company relies on other automated systems for crew scheduling, flight despatch and other operational needs. These systems could be disrupted due to various events, including design discrepancies, natural disasters, power failures, terrorist attacks, equipment failures, software failures, operational default or interruption, computer viruses or external network attacks, and other events beyond the Company’s control. The Company can give no assurance that the measures taken by the Company 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/or delays in the Company’s flights, and could have an adverse impact on the Company’s business operations, profitability, reputation and customer services, including resulting in liability on its part to pay compensation to customers. Moreover, future upgrades of information technology may challenge the reliability of the Company’s existing systems

If the Company’s efforts to protect the security of personal information of its customers are unsuccessful, it could be subject to costly government enforcement actions and private litigation and its reputation may suffer.

The nature of the Company’s business involves the receipt and storage of personal information about its customers. The Company has a programme in place to detect and respond to data security

incidents. If the Company experiences a significant data security breach or fails to detect and appropriately respond to a significant data security breach, it could be exposed to government enforcement actions and private litigation. In addition, its customers could lose confidence in its ability to protect their personal information, which could cause them to stop using the Company's services. The loss of consumer confidence resulting from a significant data security breach could hurt the Company's reputation and adversely affect its business, results of operations and financial condition.

Interruptions or disruptions in service at one or more of the Company's primary market or regional hub airports could have an adverse impact on the Company.

The Company's business is heavily dependent on its operations at its primary market airports in Shanghai, namely, Hongqiao International Airport and Pudong International Airport and its regional hub airports in Xi'an and Kunming. Each of these airports includes flights that connect flights from the Company's primary or regional markets to other major cities. Any significant interruption or disruption in service at one or more of its primary market or regional hub airports could adversely impact its operations.

Terrorist attacks, or the fear of such attacks, even if not made directly on the airline industry, could negatively affect the Company and the airline industry as a whole.

The aviation industry as a whole has been beset with high-profile terrorist attacks, most notably on 11 September 2001 in the United States. The CAAC has also implemented increased security measures in relation to the potential threat of terrorist attacks. Terrorist attacks, even if not made directly towards the Company or on the airline industry, or the fear of or the precautions taken in anticipation of such attacks, including elevated threat warnings or selective cancellation or redirection of flights, could materially and adversely affect the Company and the airline industry. Terrorist attacks targeting aircraft and/or airports not only directly threatens the Company's flight safety, aviation security, operational safety and the safety of overseas institutions and employees, but also brings about on-going adverse impact on the outbound tourism demand for places where terrorist attacks have taken place. In addition, potential or actual terrorist attacks may result in substantial flight disruption costs caused by the grounding of fleets, significant increase of security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and RPK.

The Company's tax liability may increase significantly following the expiry of unutilised tax losses.

The Company's tax liability calculated at the applicable corporate income tax in recent years has been significantly offset by the availability of unutilised tax losses. The Company currently expects these tax losses to expire among the year 2017 and 2021. Accordingly, the amount of income tax which the Company is liable to pay may increase significantly after the expiry of those tax losses, resulting in a material adverse effect on its financial condition and results of operations. The discharge by the Company of this additional tax liability could result in the non-availability of funding which would otherwise be available to meet the Company's obligations under the Guarantee or to be provided to the Issuer to enable it to meet its obligations under the Bonds.

RISKS RELATING TO THE AVIATION INDUSTRY

The supply and demand dynamics of the airline industry tend to be volatile and are subject to many unpredictable factors, including general economic conditions.

The airline industry is highly cyclical, and the level of demand for air travel is correlated generally to the strength of domestic and global economies and, specifically to the demand for passenger and cargo transportation and the supply of air transportation capacity. The demand for air transportation is subject to seasonal and other changes that may influence travel demand and cargo volume, including, without limitation, general economic conditions, changes in traffic patterns, changes in the amount of import and export activities, the availability of appropriate time slots, the competition among peer airlines or alternative means of transportation, degree of trade protectionism, proliferation of terrorism, natural disasters, epidemics, and social and political unrest, many of which are highly variable and unpredictable. Thus, the financial results for airlines in a given period tend to be volatile and subject to rapid and unexpected change. In particular, the airline industry is highly sensitive to changes in economic conditions. Robust demand for the Company's air transportation services depends largely on favourable general economic conditions, including the strength of global and local economies, increased disposable income, low unemployment levels, strong consumer and business confidence levels and the availability of consumer and business credit. Adverse economic conditions could cause changes in travel patterns and result in reduced spending for both leisure and business travel. Air transportation is often a discretionary purchase that leisure travellers may limit or eliminate during difficult economic times. In addition, during periods of unfavourable economic conditions, business travellers usually reduce the volume of their travel, or may be more likely to purchase less expensive tickets to reduce costs. These conditions could negatively affect the Company's business and results of operations or cause it to adjust its business strategies. Lastly, the risk remains that the global economy, including the PRC economy, may continue to suffer the continued effects of the global recession and the PRC government may have to readjust its macroeconomic control measures accordingly, causing the growth or demand for the Company's air transport services to slow down and having an adverse impact on its business, financial condition and results of operation. In addition, whilst the PRC government instituted certain initiatives in response to the slowdown in the PRC economy, a rapid increase in liquidity in the market as a result of fiscal stimulus measures has resulted in the PRC government implementing a number of measures to control such increase, including adjusting interest rates. These foregoing factors and any further declines in economic activity may reduce domestic or international demand and the speed at which domestic or international production capacity grows may slow down significantly, which would have a material adverse effect on the Company's revenues, results of operations and liquidity.

The Company's business is subject to extensive government policies and regulations.

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;
- jet fuel pricing;

- air carrier certification and air operator certification;
- aircraft registration and aircraft airworthiness certification; and
- airport expense policy.

The Company's ability to provide services on international routes is subject to a variety of bilateral civil air transport agreements between China and other countries, international aviation conventions and local aviation laws.

As a result of government regulations, the Company may face significant constraints on its flexibility and ability to expand its business operations or to maximise its profitability. Please see the section headed "PRC Regulations" for more details. In addition, the Company may be subject to government scrutiny and inspection from time to time. For example, from 8 October 2015 to 20 November 2015, MOF conducted an inspection of the Company in the respect of its accounting information quality and internal control. The inspection team has pointed out a number of issues, including deficiencies in accounting information and the internal control system. Such inspections might create a negative image of the Company regardless the outcome, thereby affect the Company's reputation. The inspection team's findings of and recommendation for rectification for various deficiencies identified in the Group's internal control and corporate governance systems have drawn the senior management's great attention. The Group will strictly follow the inspection team's recommendations for rectification of these deficiencies to further improve the Group's accounting information and internal control system. However, there is no assurance that such investigation or any further investigation against the Group, its officers or employees would not have an adverse effect on its business and financial performance, or result in fines or administrative penalties. Though this kind of government inspections may not necessarily result in regulatory penalties or fines, the Company may exert extra resources to remedy any issues discovered during the process and if the Company could not rectify any issues discovered, it may in future be penalised or fined by the relevant authorities. Furthermore, changes in domestic and foreign economic environment and the continuous development of the aviation industry could result in the relevant laws and regulations as well as industry and visa policies being adjusted accordingly. These changes may, to a certain extent, result in uncertainties in the future business development and operating results of the Company.

The Company's operations are dependent on Chinese aviation infrastructure, which is currently under development and may be insufficient.

The rapid increase in air traffic volume in China in recent years has put pressure on many components of the Chinese airline industry, including air traffic control systems, the availability of qualified flight personnel and airport facilities. The Company's ability to provide safe air transportation depends on the availability of qualified and experienced pilots 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, the Company's ability to provide safe air transportation will be compromised and its financial condition and results of operations may be materially and adversely affected.

The Company's results of operations tend to be volatile and fluctuate due to seasonality.

The aviation industry is characterised by annual high and low travel seasons. The Company's operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for the Company's flights and alternative routes, the degree of competition from other airlines and

alternative means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. As a result, the Company's results tend to be volatile and subject to rapid and unexpected changes.

The Company expects to face substantial competition from the rapid development of the Chinese rail network.

The PRC government has been aggressively implementing the expansion of its HSR network, which has provided train services at a speed of up to 350km per hour connecting major cities such as Beijing, Shanghai, Guangzhou and Hong Kong. The expansion of the coverage of this network, improvements in railway service quality, increased passenger capacity and stations located closer to urban centres than competing airports could enhance the relative competitiveness of the railway service and affect the Company's market share on some of its key routes, in particular its routes of between 500km to 800km. Increased competition and pricing pressures from railway service may have an adverse effect on the Company's business, financial condition and results of operations.

The airline industry is subject to increasing environmental regulations, which would increase costs and affect profitability.

In recent years, regulatory authorities in China and other countries have issued a number of directives and other regulations to address, among other things, aircraft noise and aircraft engine emissions, the use and handling of hazardous materials, aircraft age and environmental contamination remedial clean-up measures. These requirements impose high fees, taxes and substantial ongoing compliance costs on airlines, particularly as new aircraft brought into service will have to meet the environmental requirements during their entire service life.

The Company has significant expenditures with respect to environmental compliance, which may affect its operations and financial condition. For example, the Company implemented a low-carbon emissions scheme, with which over 90 per cent. of its planes comply, which aligns with its environmentally-friendly growth strategy to minimise the environmental impact of its operations. The Company has expedited the application of new civil aviation technologies, continuously focused on the development of renewable resources and concentrated on the invention and application of new technologies and applications to achieve "greener" flying. The Company has worked with CNPC to conduct experimental research on bio-fuels, which are being developed as a possible alternative to kerosene jet fuel and could lead to reduced carbon dioxide emissions of 30 per cent. In addition, all of the Company's B737 aircraft and some of its newly introduced A320 Series aircraft are equipped with a winglet or sharklet, which is an additional lifting surface to reduce fuel consumption and noises. The Company also took measures to reduce the impact of its operations on the environment by optimising its route network and flight schedules as well as installing energy-saving environmentally-friendly engines. However, these measures have resulted in significant costs and expenditures. The Company expects to continue to incur significant costs and expenditures on an ongoing basis to comply with environmental regulations, which could restrict its ability to modify or expand facilities or continue operations, or could require it to instal additional costly pollution control equipment.

Limitations on foreign ownership of PRC airlines may affect the Company's access to funding in the international equity capital markets or pursuing business opportunities.

The current CAAC policies limit foreign ownership of PRC airlines. Under these rules, non-PRC residents, including Hong Kong, Macau or Taiwan residents, cannot hold a majority equity interest in a PRC airline. As at 31 December 2015 and 2016, approximately 35.46 per cent. and 32.20 per cent., respectively, of the Company's total outstanding shares were held by non-PRC, Hong Kong, Macau or

Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). As a result, the Company's access to funding in the international equity capital markets may be limited. This restriction may also limit the opportunities available to the Company to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. The Company can give no assurance that the CAAC will increase these limits in the near future or at all.

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

The availability and prices of jet fuel have a significant impact on the Company's financial condition and results of operations. In the past, jet fuel shortages have occurred in China and, on limited occasions, caused the Company to delay or cancel flights. Although jet fuel shortages have not occurred since the end of 1993, the Company can give no assurance that jet fuel shortages will not occur in the future. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world, Organization of Petroleum Exporting Countries policies, the rapid growth of the economies of certain countries, including China and India, the levels of inventory carried by industries, the amounts of reserves built by governments, disruptions to production and refining facilities and weather conditions. In addition, the NDRC has adjusted gasoline and diesel prices in China from time to time, taking into account the changes in international oil prices, thereby affecting jet fuel prices. Due to the highly competitive nature of the airline industry, the Company may be unable to fully or effectively pass on to its customers any increased jet fuel costs that it may encounter in the future. Furthermore, the fuel efficiency of the Company's aircraft decreases as they advance in age, resulting in an overall increase in its aviation fuel costs. These and other factors that impact the global supply and demand for jet fuel may affect the Company's financial performance due to its sensitivity to fuel prices.

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

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of China and other countries where the Company does 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 encountered incidents of the H5N1 strain of avian flu, many of which have resulted in fatalities. In addition, outbreaks of, and sporadic human infection with, influenza A (H1N1) in 2009, a highly contagious acute respiratory disease, were reported in Mexico and an increasing number of countries with some cases resulting in fatalities. In addition, in April 2013, there was an outbreak of the H7N9 strain of the avian flu, which was largely been centred in eastern China, and resulted in fatalities in that region, including Shanghai. Furthermore, in 2014, an outbreak of Ebola virus, a highly contagious haemorrhagic fever with a relatively high fatality rate, in certain African countries spread to the United States and Europe. The Company is unable to predict the potential impact, if any, that another outbreak of SARS, influenza A (H1N1), any other strain of the avian flu, Ebola or any other serious contagious disease or epidemic may have on its business.

Natural disasters, such as earthquakes, snowstorms, floods or volcanic eruptions such as that of Eyjafjallajökull in Iceland in April and May 2010, the natural disasters in Japan in early 2011 and the earthquake in Ya'an, China in April 2013 may disrupt or seriously affect air travel activity. Any period

of sustained disruption to the airline industry may have a material adverse effect on the Company's business, financial condition and results of operations.

RISKS RELATING TO THE PRC

Changes in the economic policies of the PRC government may materially and adversely affect the Company's business, financial condition and results of operations.

Since the late 1970s, the PRC government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. These policies and measures may be modified or revised from time to time. 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 the Company's business, financial condition and results of operations.

Foreign exchange regulations in the PRC may result in fluctuations of the Renminbi and adversely affect the Company's ability to pay dividends or to satisfy its foreign currency liabilities.

A significant portion of the Company's revenue and operating expenses are denominated in Renminbi, whilst a portion of its 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 in the capital account, which includes foreign direct investment, unless approval from or registration or filing with the relevant authorities, is obtained. As a foreign invested enterprise approved by MOFCOM, the Company can purchase foreign currencies without the approval of SAFE for settlement of current account transactions, including payment of dividends, by providing commercial documents evidencing these transactions. The Company can also retain foreign currencies in its current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or pay dividends. The relevant PRC government authorities may limit or eliminate the Company's ability to purchase and retain foreign currencies in the future. Foreign currency transactions in the capital account are still subject to limitations and require approvals from SAFE. This may affect the Company's ability to raise foreign capital through debt or equity financing, including by means of loans or capital contributions. The Company can give no assurance that it will be able to obtain sufficient foreign currencies to pay dividends to overseas shareholders, if any, or satisfy its foreign currency liabilities.

Furthermore, the value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the PRC government policies, domestic and international economic and political conditions and changes in the supply and demand of such currencies. On 21 July 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 the appreciation of the Renminbi against the U.S. dollar by approximately 7.0 per cent. in 2008. Whilst there was no material appreciation of the Renminbi against the U.S. dollar in 2009, the Renminbi against the U.S. dollar appreciated by approximately 3.0 per cent. in 2010 and by approximately 5.1 per cent. in 2011. In April 2012, the PBOC widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi was allowed to appreciate or depreciate by 1.0 per cent. from the PBOC central parity rate. In March 2014, the PBOC further widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi was allowed to appreciate or depreciate by 2.0 per cent. from the daily central parity rate. On 11 August 2015, the PBOC executed a

2 per cent. devaluation in the Renminbi. Within the following two days, the Renminbi depreciated 3.5 per cent. against the U.S. dollar. The Renminbi depreciated 6.7 per cent. against the U.S. dollar from 4 January 2016 to 30 December 2016. However, it remains unclear what further fluctuations may occur or what impact this will have on the value of the Renminbi. It is possible that the PRC government could adopt a more flexible foreign exchange policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency. Any resulting fluctuations in exchange rates as a result of such policy changes may have an adverse effect on the Company's financial condition and results of operations.

The operations of the Company may be adversely affected by rising inflation rates in the PRC.

Inflation rates in the PRC have been on a sharp uptrend in recent years. The PRC government has undertaken numerous contractionary policies, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down excessive economic growth and control price hikes. Increases in inflation rates are due to many factors beyond the Company's control, such as rising food prices, rising production and labour costs, high lending levels, changes in the PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. In 2014, the inflation rates fluctuated with two peaks in May and July 2014. In 2015, the inflation rates fluctuated, reaching a peak of 2.0 per cent. in August 2015. In 2016, the inflation rates fluctuated, peaking at 2.3 per cent. in February, March, April and November 2016. The national consumer price index was 2.6 per cent. in 2013, equal to that of 2012. The national consumer price index was 2.1 per cent. 1.4 per cent. and 2.0 per cent. in 2014, 2015 and 2016, respectively. The Company can give no assurance that inflation rates will not continue to increase in the future. If inflation rates rise beyond the Company's expectations, the costs of its business operations, including wages and employee benefits, may become significantly higher than it has anticipated, and it may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increased operating costs. Furthermore, the PRC government has promulgated new laws and regulations to enhance labour protection in recent years, such as the Labour Contract Law and the Social Insurance Law. As the interpretation and implementation of these new laws and regulations are still evolving, the Company's employment practice may not be at all times be deemed in compliance with the new laws and regulations, and the Company may incur significant compliance costs in the future. As a result, further inflationary pressures and the possibility of incurring significant compliance costs and labour dispute liabilities within the PRC may have a material adverse effect on the Company's business, financial condition and results of operations, as well as its liquidity and profitability.

Any withdrawal of, or changes to, tax incentives in the PRC may adversely affect the Company's results of operations and financial condition.

Prior to 1 January 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 per cent. under the relevant PRC Enterprise Income Tax Law. On 16 March 2007, China passed a new enterprise income tax law, or the EIT Law, which took effect on 1 January 2008 and amended on 24 February 2017. The EIT Law imposes a uniform income tax rate of 25 per cent. for domestic enterprises and foreign invested enterprises. Business enterprises enjoying preferential tax treatment that was extended for a fixed term prior to 1 January 2008 will still be entitled to such treatment until such fixed term expires. Certain of the Company's subsidiaries are entitled to preferential tax treatment, allowing the Company to enjoy a lower effective tax rate that would not otherwise be available to it. To the extent that there are any increases in the applicable effective tax rate, withdrawals of, or changes in its preferential tax treatment or tax exemptions, the Company's tax liability may increase in the future.

Uncertainties embodied in the PRC legal system may limit certain legal protection available to investors.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, 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 investors in China. However, the interpretation and enforcement of some of these laws, and regulations involve uncertainties that may limit the legal protection available to investors. Such uncertainties are expected to continue to exist as the legal system in the PRC continues to evolve. Even where adequate laws exist in the PRC, the enforcement of the existing laws or contracts may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement, including enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited as reference but have limited authority as precedents. As such, any litigation in the PRC may be protracted and result in substantial costs and diversion of the Company's resources and management's attention.

In addition, although the Company has full or majority Board control over the management and operation of all of its subsidiaries established in the PRC The control over these PRC entities and the exercise of shareholder rights are subject to their respective articles of association and PRC laws applicable to foreign-invested enterprises in the PRC, which may be different from the laws of other developed jurisdictions.

The PRC has not developed a fully integrated legal system and certain recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. The relative lack of experience of the PRC's judiciary in many cases also creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, in case of new laws and regulations, the interpretation, implementation and enforcement of these laws and regulations would involve uncertainties due to the lack of established practice or published court decisions available for reference. The Company cannot predict the effect of future legal development in the PRC, including promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or inconsistencies between the local rules and regulations and national law. As a result, there is substantial uncertainty as to the legal protection available to the Company and investors of the Bonds. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Company may not be aware of any violations until sometime after the violation has occurred. This may also limit the remedies available to investors of the Bonds and to the Company in the event of any claims or disputes with third parties.

Any litigation in the PRC may be protracted and result in substantial costs and diversion of the Company's resources and management attention.

The Issuer may be categorised as a PRC resident enterprise under the enterprise income tax law of the PRC and becomes subject to a corporate tax rate that is higher than the corporate tax rate in Hong Kong.

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management organisation" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the EIT Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the Issuer's "de facto

management organisation” is within the territory of the PRC, it may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside the PRC. As at the date of the Offering Circular, the Issuer confirms that it has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or with incomes that have no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent. on its income sourced inside the PRC, and such income tax shall be withheld at source with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, it shall withhold income tax from the payments of interest in respect of the Bonds for each non-PRC resident Bondholder.

Proceedings instituted by the SEC against certain PRC-based accounting firms, including the China affiliate of the Company’s independent registered public accounting firm which has a substantial role in the audit of the Company, could result in financial statements being determined not to comply with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against five accounting firms in China, including the Chinese affiliate of the Company’s independent registered public accounting firm, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC. On 22 January 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of these firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. On 12 February 2014, four of these PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to provide the SEC with access to the Chinese firms’ audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose sanctions such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined not to be in compliance with the requirements of the Exchange Act, and possibly delisting of the securities. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based U.S.-listed companies and the market price of the Company’s ADRs may be adversely affected.

If the Chinese affiliate of the Company’s independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and the Company was unable to find another registered public accounting firm in a timely manner to audit and issue an opinion on its financial statements, its financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such determination could ultimately lead to the Company’s delisting from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of its ADRs in the United States.

RISKS RELATING TO THE GUARANTEE AND THE BONDS

The Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds and the merits and risks of investing in the Bonds and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- understand thoroughly the terms of the Bonds; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Changes in market interest rates may adversely affect the value of the Bonds

Investment in the Bonds, which carry a fixed rate of interest, involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

The Bonds and the Guarantee are unsecured obligations.

As the Bonds and the Guarantee are unsecured obligations, the repayment of the Bonds and payment under the Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Bonds.

The Issuer and the Guarantor may not be able to meet their outstanding obligations under the Bonds.

The Issuer is required under the terms and conditions of the Bonds to redeem the Bonds upon maturity or upon redemption following a Relevant Event (as defined in the Terms and Conditions of the Bonds). The source of funds for any such redemption would be the Guarantor's and the Issuer's available cash or third-party financing. However, the Guarantor or the Issuer may not have sufficient available funds to redeem the Bonds upon maturity or upon redemption following a Relevant Event. A failure to redeem the outstanding Bonds when due would constitute an Event of Default (as defined therein) under the Bonds. The Event of Default may in turn constitute an event of default under other

indebtedness, any of which could cause related debt to be accelerated after any applicable notice or grace periods. If other debt of the Issuer or the Guarantor were to be accelerated, the Issuer or the Guarantor may not have sufficient funds or assets to redeem the Bonds and repay the debt.

The liquidity and price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Company's revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in the prices of securities of companies comparable to the Guarantor could cause the price of the Bonds to change. Any such development may result in large and sudden changes in the volume and price at which the Bonds will trade. There is no assurance that these developments will not occur in the future.

The NDRC Circular is a recent development and its interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Bonds.

According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities, or medium-to-long term loans issued or incurred outside the PRC with the NDRC prior to the issue of the securities or drawings under the loans, and notify the particulars of the relevant issues or drawings, within ten business days after closing. The NDRC Circular is a recent development and its interpretation may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Bonds. In addition, the administration of the NDRC Circular may be subject to a certain degree of executive and policy discretion by the NDRC. The NDRC Circular does not expressly state the legal consequences of non-compliance with such post issue notification requirements, therefore, there is no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the Issuer, the Guarantor, the Bonds or the investors in the Bonds. There is also no assurance that the registration approval or the annual foreign debt quota with the NDRC will not be revoked or amended in the future, or that future changes in PRC laws and regulations will not have a negative impact on the performance, validity or enforceability of the Bonds in the PRC. Potential investors of the Bonds are advised to exercise due caution when making their investment decisions.

There is uncertainty relating to the enforceability of the Guarantee of the Bonds.

On 12 May 2014, the SAFE promulgated the Notice concerning the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees and the related implementation guidelines (collectively the "SAFE Regulations"), which stipulates that any guarantee provided by PRC-incorporated entities in favour of offshore creditors in connection with debt financing granted to offshore debtors is required to be registered with the SAFE. Under the SAFE Regulations, the Guarantor is required to register the Guarantee of the Notes with the SAFE as a procedural matter within 15 business days after the date of execution of the Deed of Guarantee. In the event that the Guarantor is required to perform its payment obligations under the Guarantee of the Notes, the Guarantor must submit the registration documents issued by the SAFE to banks, which upon reviewing such registration documents will process its remittance request directly.

Pursuant to the SAFE Regulations, the registration or record-filing of a cross-border guarantee contract by the SAFE, and other administrative matters and requirements specified therein, will not constitute prerequisites for the cross-border guarantee contract to enter into effect. However, failure to complete the registration as required may result in a fine up to RMB300,000 under the Foreign Exchange of Cross Border Guarantee Measures. In addition, where the Guarantor fails to complete the registration with the SAFE, the Guarantor must, before performing the obligations under the Guarantee

of the Notes, complete a remedial registration. Only by submitting the registration documents or remedial registration documents will the Guarantor be able to remit funds outside PRC in order to perform its payment obligations under the Guarantee of the Notes. In addition, if the guarantee liability is a repayment obligation for an issuer under the offshore bond issuance, the equity interests of such issuer must be directly or indirectly held by an onshore entity and the proceeds of the bond issuance must be used for an offshore project in which the onshore entity has an equity interest and the issuer and such offshore project must have been duly approved by, registered and filed with the relevant authorities in charge of outbound investment.

The SAFE Regulations are recent regulations and may be subject to a degree of executive and policy discretion and interpretation by the SAFE.

Investment in the Bonds may subject investors to foreign exchange rate risks.

The Bonds are denominated and payable in Singapore dollars. An investor who measures investment returns by reference to a currency other than Singapore dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among other things, economic, political and other factors over which the Issuer has no control. Depreciation of the Singapore dollar against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including the giving of notice to the Issuer and the Guarantor pursuant to Condition 9 of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee will not be obliged to take any such actions if not first indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed or in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the Trust Deed, the Terms and Conditions of the Bonds and the applicable law and regulations, it will be for the Bondholders to take such actions directly.

An active trading market for the Bonds may not develop.

There can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market was to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price, depending on many factors, including prevailing interest rates, the Company's operations and the market for similar securities. The Joint Lead Managers are not obligated to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, investors will only be able to resell their Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

Developments in the international financial markets may adversely affect the market price of the Bonds.

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for securities of entities with PRC operations is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC. Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets or in any country in the future, the market price of the Bonds could be adversely affected.

The insolvency laws of the PRC and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Bonds are familiar.

As the Guarantor and its significant subsidiaries are incorporated under the laws of the PRC, any insolvency proceeding relating to them is likely to involve PRC insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.

The Terms and Conditions of the Notes and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken.

Under the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned", judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. As compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside of Hong Kong will be limited.

Modifications and waivers may be made in respect of the Terms and Conditions and the Trust Deed by the Trustee or less than all of the holders of the Bonds, and decisions may be made on behalf of all holders of the Bonds that may be adverse to the interests of the individual holders of the Bonds.

The Terms and Conditions contain provisions for calling meetings of the holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including those Bondholders who did not attend and vote at the relevant meeting and

those Bondholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of the individual holders of the Bonds.

The Terms and Conditions also provide that the Trustee may, without the consent of the holders of the Bonds, agree to any modification of the Trust Deed, the Deed of Guarantee, the Terms and Conditions and/or the Agency Agreement (other than in respect of a reserved matter) which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Bonds and to any modification of the Bonds, the Trust Deed, the Deed of Guarantee or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law.

Restrictions and covenants in the debt agreements of the Issuer, the Guarantor or any other member of the Group may limit the Group's ability to incur additional indebtedness and restrict its future operations, and failure to comply with these restrictive covenants may result in a default under the terms of these agreements, or the Bonds, which could cause repayment of the debt of the Issuer or the Guarantor to be accelerated.

Certain financing contracts entered into by members of the Group contain operational and financial restrictions that prohibit the Group's or, as the case may be, the relevant subsidiary's, business operations or financing activities, that restrict the relevant borrower from incurring additional indebtedness, creating security or granting guarantees or changing their business and corporate structure and declaring or paying dividends unless it is able to satisfy certain requirements, including but not limited to meeting certain financial ratios or obtaining the relevant lender's prior consent. The ability of the Group to meet such requirements may be affected by events beyond its control, and the Group may not be in compliance with such restrictions from time to time. Such restrictions may also negatively affect the Group's ability to respond to changes in market conditions in time, pursue the business opportunities the Group believes to be desirable, obtain future financing, fund capital expenditures, or withstand a continuing or future downturn in the Group's business. Any of these factors could materially and adversely affect the ability of the Issuer, the Guarantor and other members of the Group to satisfy its obligations under the Bonds and/or other debt, as the case may be.

If the Issuer is unable to comply with the restrictions and covenants in the Bonds, or if any of the Guarantor or its subsidiaries, including the Issuer, is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of such agreements. In the event of a default under such agreements, the creditors may be entitled to terminate their commitments granted to the Group or its subsidiaries, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, depending on the provisions of the relevant agreements. Some of the Group's financing agreements contain cross-acceleration or cross-default provisions, which give creditors under these financing agreements to require the Group to immediately repay their loans or declare a default as a result of the acceleration or default of other financing agreements by any other member of the Group. As a result, the default by the Guarantor or the relevant subsidiary under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there is no assurance that the Group will be able to obtain the lenders' waiver in a timely manner or that the assets and cash flow of the Group or its subsidiaries would be sufficient to repay in full all of the respective debts as they become due, or that the Group or its subsidiaries would be able to find alternative financing. Even if the Group or its subsidiaries could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Group or, as the case may be, its subsidiaries.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to modification and other than the words in italics is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of SGD-denominated Guaranteed Bonds was authorised by a shareholders' resolution and a resolution of the Board of Directors of Eastern Air Overseas (Hong Kong) Corporation Limited (the "Issuer") passed on 2 November 2017 and 27 October 2017, respectively, and the guarantee of the Bonds was authorised by a resolution of the general meeting of the shareholders and a resolution of the Board of Directors of China Eastern Airlines Corporation Limited (the "Guarantor") on 28 June 2017 and 27 April 2017, respectively. The Bonds are constituted by a Trust Deed (as amended and/or supplemented, the "Trust Deed") dated on or about [●] 2017 (the "Issue Date") between the Issuer, the Guarantor and DB Trustees (Hong Kong) Limited (the "Trustee" which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds, and are issued on the Issue Date. These terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Bonds have the benefit of a deed of guarantee (as amended and/or supplemented, the "Deed of Guarantee") dated on or about [●] 2017 executed by the Guarantor relating to the Bonds. Copies of the Trust Deed, the Deed of Guarantee and an agency agreement (as amended and/or supplemented, the "Agency Agreement") dated on or about [●] 2017 relating to the Bonds between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the "Principal Paying Agent", which expression shall include any successor principal paying agent appointed from time to time in connection with the Bonds), as registrar (the "Registrar", which expression includes any successor registrar appointed from time to time in connection with the Bonds) and as transfer agent (the "Transfer Agent", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Bonds), are available for inspection upon prior written request and satisfactory proof of holding at all reasonable times during normal business hours at the principal office of the Trustee (being at the Issue Date at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified office of the Principal Paying Agent. "Paying Agents" means the Principal Paying Agent and includes any successor or additional paying agents appointed from time to time in connection with the Bonds and "Agents" means the Principal Paying Agent, any other Paying Agents, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Deed of Guarantee and are deemed to have notice of those applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 Form, Denomination and Title

- (a) **Form and denomination:** The Bonds are issued in the specified denomination of SGD250,000. A certificate (each, a "Certificate") will be issued to each holder of Bonds in respect of its registered holding of Bonds. Each Certificate shall be numbered serially and shall have an identifying number which shall be recorded on the relevant Certificate and in the register of holders of the Bonds (the "Register"), which the Issuer shall procure to be kept by the Registrar.

Upon issue, the Bonds will be represented by a global certificate deposited with, and registered in the name of, or in the name of a nominee for, a common depositary for

Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) (the “Global Certificate”). The Conditions are modified by certain provisions contained in the Global Certificate. See “Summary of Provisions Relating to the Bonds in Global Form”.

Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive Certificates in respect of their individual holdings of Bonds.

- (b) **Title:** Title to the Bonds shall pass only by transfer and registration of title in the Register. The holder of any Bond shall, except as ordered by a court of competent jurisdiction or as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on (other than the endorsed form of transfer), or the theft or loss of, the Certificate issued in respect of it), and no person shall be liable for so treating the holder. In these Conditions, “holder of the Bonds”, “holder” and “Bondholder” in relation to a Bond shall mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

2 Status and Guarantee

- (a) **Status:** The Bonds constitute direct, unconditional, unsubordinated and, subject to Condition 4(a), unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
- (b) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. Its obligations in that respect (the “Guarantee”) are contained in the Deed of Guarantee. The Guarantee constitutes direct, unsubordinated, unconditional and, subject to Condition 4(a), unsecured obligations of the Guarantor. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Transfers of Bonds and Issue of Certificates

- (a) **Register:** The Issuer will cause the Register to be kept at the specified office of the Registrar (which shall be outside the United Kingdom in all circumstances) and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.
- (b) **Transfers:** Subject to the Agency Agreement and Conditions 3(e) and 3(f), a Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer endorsed on such Certificate duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any Transfer Agent; provided, however, that a Bond may not be transferred unless the principal amount

of the Bond being transferred and (where only part of the principal amount of the Bond is being transferred) the principal amount of the balance of the Bond not being transferred are specified denominations. No transfer of title to a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

- (c) **Delivery of new Certificates:** Each new Certificate to be issued upon a transfer of Bonds will, within seven business days (as defined below) of receipt by the Registrar or, as the case may be, any Transfer Agent of the Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds but free of charge to the holder and at the expense of the Issuer, failing whom the Guarantor, to the address specified in the form of transfer. The form of transfer is available at the specified office of any Transfer Agent. Where only part of the principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, a new Certificate in respect of the Bonds not so transferred will, within seven business days (as defined below) of delivery of the original Certificate to the Registrar or Transfer Agent, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred (but free of charge to the holder and at the expense of the Issuer, failing whom the Guarantor) to the address of such holder appearing on the Register.

In this Condition 3, “business day” shall mean a day (other than a Saturday, Sunday or public holiday) on which commercial banks are generally open for business in the city in which the specified office of the Registrar or (as the case may be) such Transfer Agent with whom a Certificate is deposited in connection with a transfer, is located.

- (d) **Formalities free of charge:** Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon (i) payment (or the giving of such indemnity or security as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and (iii) the relevant Agent (after consultation with the Issuer if so required) being satisfied that the regulations concerning transfer of Bonds have been complied with.
- (e) **Closed periods:** No Bondholder may require the transfer of a Bond to be registered during the period of (i) seven Payment Business Days (as defined in Condition 7(f)) ending on (but excluding) the due date for any payment of principal in respect of that Bond; and (ii) during the period of ten days ending on (and including) any Interest Record Date (as defined in Condition 7(a)).
- (f) **Regulations:** All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be mailed (free of charge to the Bondholder and at the expense of the Issuer, failing whom the Guarantor) by the Registrar to any Bondholder upon request and is available for inspection at the specified office of any Transfer Agent.

4 Negative Pledge; Undertaking relating to the Guarantee

(a) **Negative pledge:** So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will ensure that none of their respective Subsidiaries will, create, or have outstanding, any mortgage, charge, lien, pledge, other security interest or form of encumbrance having a similar effect upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as the Trustee may in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

(b) **Undertakings relating to the Guarantee:**

(i) Registration with SAFE:

The Guarantor undertakes that it will (a) file or cause to be filed with SAFE the Deed of Guarantee within 15 PRC Business Days after the date of execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014 (the “Cross-Border Security Registration”), (b) use its reasonable endeavours to complete the Cross-Border Security Registration and obtain a registration record from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the SAFE Registration Deadline, and to comply with all applicable PRC laws and regulations in relation to the Guarantee, and (c) within seven PRC Business Days after receipt of the registration record from SAFE (or any other document evidencing the completion of registration issued by SAFE), (1) provide the Trustee with a certificate in substantially the form set out in the Trust Deed signed by an Authorised Signatory (as defined in the Trust Deed) of the Guarantor confirming the completion of the Cross-Border Security Registration, together with a copy of the relevant SAFE registration record (or any other document evidencing the completion of registration issued by SAFE) relating to the Cross-Border Security Registration, each certified in English as a true and complete copy of the original by an Authorised Signatory of the Guarantor (the items in (1) and (2) collectively, the “Registration Documents”), and (2) give notice to the Bondholders in accordance with Condition 16 confirming the completion of the Cross-Border Security Registration.

The Trustee shall have no obligation to monitor or ensure or in any way assist with the registration of the Guarantee with SAFE on or before the SAFE Registration Deadline or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the Cross-Border Security Registration and the Registration Documents or to give notice to the Bondholders confirming the completion of the Cross-Border Security Registration, and shall not be liable to the Bondholders or any other person for not doing so.

(ii) Notification to NDRC:

The Guarantor undertakes to file or cause to be filed with the NDRC the requisite information and documents within 10 PRC Business Days after the Issue Date in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資[2015] 2044號)) promulgated by the NDRC, which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the “NDRC Post-issue Filing”).

The Guarantor shall submit the NDRC Post-issue Filing within the prescribed timeframe and comply with all applicable PRC laws and regulations in connection with the NDRC Post-issue Filing. The Guarantor shall within seven PRC Business Days after submission of such NDRC Post-issue Filing (a) provide the Trustee with a certificate in English in substantially the form set out in the Trust Deed signed by an Authorised Signatory of the Guarantor confirming the submission of the NDRC Post-issue Filing (together with copies of the document(s) filed with the NDRC, each certified in English as a true and complete copy of the original by an Authorised Signatory of the Guarantor) and (b) give notice to the Bondholders in accordance with Condition 16 confirming the submission of the NDRC Post-issue Filing.

The Trustee shall have no obligation or duty to monitor or ensure or in any way assist with the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any certificate, confirmation, or other documents in relation to or in connection with the NDRC Post-issue Filing or to give notice to the Bondholders confirming the submission of the NDRC Post-issue Filing, and shall not be liable to Bondholders or any other person for not doing so.

(c) **Definitions:** In these Conditions:

“NDRC” means the National Development and Reform Commission of the PRC or its local counterparts;

“PRC Business Day” means a day (other than a Saturday, Sunday or a public holiday) on which banks in Beijing, the PRC are not authorised or obliged by law or executive order to be closed;

“Relevant Indebtedness” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

a “Subsidiary” of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person;

“SAFE” means the Shanghai Bureau of the State Administration of Foreign Exchange or its local branch; and

“SAFE Registration Deadline” means the day falling 100 PRC Business Days after the Issue Date.

5 Interest

- (a) **Interest rate and Interest Payment Dates:** The Bonds bear interest from and including the Issue Date at the rate of [●] per cent. per annum, payable semi-annually in arrear in equal instalments of SGD[●] per Calculation Amount on [●] and [●] in each year (each an “Interest Payment Date”), commencing the first Interest Payment Date after the Issue Date. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below), payment of interest shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “Interest Period”.
- (b) **Interest Payments:** Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest in accordance with this Condition (both before and after judgement) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).
- (c) **Calculation of interest:** Interest in respect of any Bond shall be calculated per SGD250,000 in principal amount of the Bonds (the “Calculation Amount”). The amount of interest payable per Calculation Amount for any period, save as provided above in relation to equal instalments, shall be calculated by applying the rate of interest specified in Condition 5(a) to the Calculation Amount and multiplying such product by the actual number of days in the period concerned divided by 365 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (d) In this Condition 5, the expression “business day” means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in Singapore and Hong Kong.

6 Redemption and Purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling in or nearest to [●] (the “Maturity Date”), subject as provided in Condition 7. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

- (b) **Redemption for taxation reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount together with accrued but unpaid interest, if the Issuer satisfies the Trustee immediately prior to the giving of such notice that:
- (i) it (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8(c) as a result of any change in, or amendment to, the laws or regulations of Hong Kong, in the case of the Issuer, or the PRC, in the case of the Issuer or the Guarantor, or in each case any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a decision by a court of competent jurisdiction), which change or amendment becomes effective on or after [●], and
 - (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Bonds (or the Guarantee, as the case may be) were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee (A) a certificate signed by two Authorised Signatories of the Issuer (or by two Authorised Signatories of the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and (B) an opinion, addressed to and in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event the same shall be conclusive and binding on the Bondholders.

- (c) **Redemption for Relevant Events:** At any time following a Relevant Event, a Bondholder will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds on the Put Date at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, in each case together with accrued interest up to, but excluding the Put Date. To exercise such right, the relevant Bondholder must deposit at the specified office of the Principal Paying Agent or any Transfer Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent or any Transfer Agent (a "Put Exercise Notice"), together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16. The "Put Date" shall be the fourteenth day (or, if such day is not a Payment Business Day, the next business day immediately following such day) after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of Put Exercise Notices delivered as aforesaid on the Put Date.

The Issuer shall give notice to Bondholders in accordance with Condition 16 and to the Trustee in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Relevant Event has occurred and shall not be responsible or liable to Bondholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

For the purposes of this Condition 6(c):

a “Change of Control” occurs when the SASAC ceases to directly or indirectly Control the Guarantor or the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor’s assets to any other person or persons, acting together, except where such person(s) is/are Controlled by the SASAC;

“Control” means (where applicable): (i) the ownership or control of more than 50 per cent. of the Voting Rights of the issued share capital of a person or (ii) the nomination or designation of no less than 50 per cent. of the members then in office of a person’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person. For the avoidance of doubt, a person is deemed to Control another person so long as it fulfils one of the three foregoing requirements;

a “No Registration Event” occurs when the Registration Conditions are not satisfied on or before the SAFE Registration Deadline;

a “person” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state, agency of a state (in each case whether or not being a separate legal entity) but does not include:

- (a) the Guarantor’s board of directors or any other governing board; and
- (b) the Guarantor’s wholly-owned direct or indirect subsidiaries;

a “Relevant Event” means a Change of Control or a No Registration Event;

“Registration Conditions” means the receipt of the certificate and supporting documents by the Trustee and the giving of the notice to Bondholders by the Guarantor within seven PRC Business Days after the receipt of the registration record from SAFE (or any other document evidencing the completion of registration issued by SAFE) as set out in Condition 4(b)(i);

“SASAC” means the State-owned Assets Supervision and Administration Commission of the State Council of the PRC or its successor; and

“Voting Rights” means the right generally to vote at a general meeting of shareholders of the Guarantor (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency, and any such voting power shall therefore be excluded for the purpose of this definition).

- (d) **Notices of redemption:** If in respect of any Bond, a redemption notice pursuant to Condition 6(b) and a Put Exercise Notice are given, the Put Exercise Notice shall prevail.
- (e) **Notice of redemption:** All Bonds in respect of which any notice of redemption is given under Condition 6(b) shall be redeemed on the date specified in such notice in accordance with this Condition 6.
- (f) **Purchase:** The Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds purchased pursuant to this Condition 6(f) may be held, reissued, resold or surrendered to the Registrar for cancellation at the option of the Issuer, the Guarantor or their respective Subsidiaries (as the case may be). The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for, among other things, the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 12(a).

7 Payments

(a) Method of Payment:

- (i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) by transfer in Singapore Dollar to the registered account of the Bondholder. Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the “Interest Record Date”). Payments of interest on each Bond shall be made in Singapore Dollar by transfer to the registered account of the Bondholder.
- (ii) For the purposes of this Condition 7, a Bondholder’s “registered account” means the Singapore Dollar account maintained by or on behalf of it, details of which appear on the Register at the close of business on the fifth Payment Business Day before the due date for payment.
- (iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate at the Issuer’s expense with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

So long as the Global Certificate is held on behalf of Euroclear Bank SA/NV and Clearstream Banking S.A. or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the

close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

- (b) **Payments subject to Fiscal Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Bondholders in respect of such payments.
- (c) **Payment Initiation:** Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date, or if that is not a Payment Business Day, for value on the first following day which is a Payment Business Day) will be initiated on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.
- (d) **Appointment of Agents:** The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act, save as specifically provided in these Conditions, solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar or the Transfer Agent and to appoint additional or other Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar with a specified office outside the United Kingdom, (iii) a Transfer Agent, and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed, in each case, as approved in writing by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given by the Issuer to the Bondholders in accordance with Condition 16.

- (e) **Delay in Payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).
- (f) **Payment Business Days:** In this Condition 7, “Payment Business Day” means a day (other than a Saturday or Sunday or public holiday) on which banks and foreign exchange markets are open for business in Singapore and the city in which the specified office of the relevant Paying Agent is located and, in the case of surrender of a Certificate (if surrender of the relevant Certificate is required), the relevant place of presentation.

8 Taxation

- (a) All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within

Hong Kong or the PRC or, in each case, any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

- (b) Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC at a rate up to and including the aggregate rate applicable on [●] 2017 (the “Applicable Rate”), the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.
- (c) If the Issuer or, as the case may be, the Guarantor is required to make a deduction or withholding by or within the PRC in excess of the Applicable Rate or if the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (“Additional Tax Amounts”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:
 - (x) Other connection: to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Hong Kong or the PRC in the case of payments by the Issuer, or the PRC in the case of payments made by the Guarantor, other than the mere holding of the Bond; or
 - (y) Surrender more than 30 days after the Relevant Date: in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date, except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

“Relevant Date” in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

References in these Conditions to principal, premium (if any) and interest shall be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition 8 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9 Events of Default

If any of the following events (each an “Event of Default”) occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided that the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at 100 per cent. of their principal amount together (if applicable) with accrued interest:

- (a) **Non-Payment:** the Issuer and the Guarantor each fails to pay the principal of or any interest on any of the Bonds when due and in the case of interest such failure continues for a period of 14 days; or
- (b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Bonds or under the Deed of Guarantee and/or the Trust Deed (where applicable) which default is in the opinion of the Trustee incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor by the Trustee; or
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) has occurred equals or exceeds US\$50 million or its equivalent in any other currency (as determined on the basis of the middle spot rate for the relevant currency against the Renminbi as quoted by any leading bank on the day on which such amount becomes due and payable or is not paid); or
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or, a material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Principal Subsidiaries and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Principal Subsidiaries over the whole or, a material part of the assets of the Issuer, the Guarantor or any of the Principal Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver manager or other similar person) and is not discharged within 30 days; or
- (f) **Insolvency:** the Issuer, the Guarantor or any of the Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the

benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any material part of the debts of the Issuer, the Guarantor or any of the Principal Subsidiaries; or

- (g) **Winding-up:** an administrator is appointed, an order of any court of competent jurisdiction is made or an effective resolution is passed for the winding-up or dissolution of the Issuer or the Guarantor or any of the Principal Subsidiaries, or the Issuer or the Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or, substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor (as the case may be) or another of the Principal Subsidiaries; or
- (h) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds, the Deed of Guarantee, the Trust Deed and the Agency Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds, the Deed of Guarantee, the Trust Deed and the Agency Agreement admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or
- (i) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds, the Deed of Guarantee or the Trust Deed; or
- (j) **Unenforceability of Guarantee:** the Guarantee becomes unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Guarantor; or
- (k) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 9(a) to 9(j) (both inclusive),

Each of the Issuer and the Guarantor has undertaken in the Trust Deed that, within 14 days of its annual audited financial statements being made available to its members, and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by two Authorised Signatories of the Issuer or, as the case may be, by two Authorised Signatories of the Guarantor to the effect that as at a date not more than five days prior to the date of the certificate no Event of Default or event or circumstance that could with the giving of notice, lapse of time and/or issue of a certificate become an Event of Default has occurred.

The Trustee shall have no obligation to monitor whether an Event of Default or a Potential Event of Default has occurred, and shall not be liable to the Bondholders or any other person for not doing so.

In this Condition 9, “Principal Subsidiary” means any Subsidiary of the Guarantor:

- (a) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue, as shown by its latest audited income statement is at least 5 per cent. of the consolidated revenue as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries’ share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (b) whose gross profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated gross profit, as shown by its latest audited income statement are at least 5 per cent. of the consolidated gross profit as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries’ share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (c) whose gross assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated gross assets, as shown by its latest audited balance sheet are at least 5 per cent. of the amount which equals the amount included in the consolidated gross assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the investment of the Guarantor in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Guarantor and after adjustment for minority interests; or
- (d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to become a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition,

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;
- (ii) if at any relevant time in relation to the Guarantor or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, gross profit or gross assets of the Guarantor and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Guarantor;

- (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, gross profit or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Guarantor; and
- (iv) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor.

In addition, any Subsidiary which is not itself a Principal Subsidiary shall nevertheless be treated as a Principal Subsidiary if the revenue (or consolidated revenue if the Subsidiary itself has Subsidiaries), gross profit (or consolidated gross profit if the Subsidiary itself has Subsidiaries) or gross assets (or consolidated gross assets if the Subsidiary itself has Subsidiaries) attributable to such Subsidiary when aggregated with the revenue (or consolidated revenue if appropriate), gross profit (or consolidated gross profit if appropriate) or gross assets (or consolidated gross assets if appropriate) attributable to any other Subsidiary which is not itself a Principal Subsidiary and with respect to which any of the events referred to in this Condition 9 has occurred since the issue date of the Bonds and is continuing, exceeds 5 per cent. of the consolidated revenue, consolidated gross profit or consolidated gross assets of the Guarantor and its Subsidiaries.

Subject to compliance with the requirement set forth below, a certificate prepared by the directors of the Guarantor that in their opinion, a Subsidiary is or is not, or was or was not, a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Bondholders and all parties. The certificate must be accompanied by a report by an internationally recognised firm of accountants addressed to the directors of the Guarantor as to proper extraction and basis of the figures used by the Guarantor in determining the Principal Subsidiaries of the Guarantor and mathematical accuracy of the calculation.

10 Prescription

Claims in respect of principal and interest will become void unless made as required by Condition 7 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any other Agent subject to all applicable laws or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as (i) the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice) or (ii) any Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders and Modification

- (a) **Meetings of Bondholders:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by

Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Deed of Guarantee, the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee, and shall be convened by the Trustee if requested in writing by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and subject to it being indemnified and/or secured and/or pre-funded to its satisfaction against any costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in the aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee (subject to Condition 12(b)), in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent. or at any adjourned meeting not less than 33 per cent. in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

- (b) **Modification:** The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, the Deed of Guarantee or the Agency Agreement, that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the Deed of Guarantee or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may in its discretion require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed, the Deed of Guarantee (in the case of the Guarantor) and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds, the Deed of Guarantee and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Under

the Trust Deed, the Trustee may agree or require the Issuer to use all reasonable endeavours to procure the substitution as principal debtor under the Trust Deed and the Bonds of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Bonds, and provided that if the Bonds are rated at the time of substitution, such substitution shall not at the time of substitution result in a downgrading of any rating assigned to the Bonds.

- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, take any steps or action and/or institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Bonds and/or the Guarantee, but it need not take any such steps or action or institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of and/or provision of security and/or prefunding for and to the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely without liability to Bondholders or any other person on any report, confirmation, certificate or information from or any opinion or any advice of any accountants, lawyers, financial advisers, financial institution or any other expert or professional adviser, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, information, certificate, opinion or advice and, in such event, such report, confirmation, information, certificate, opinion or advice shall be binding on the Issuer, the Guarantor and the Bondholders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Deed of Guarantee, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions from the Bondholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making

such decision or giving such direction as a result of seeking such direction from the Bondholders or in the event that no direction is given to the Trustee by the Bondholders.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor or any other person appointed by the Issuer and/or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has express written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Bondholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by Bondholders holding the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed.

15 Further Issues

Subject to compliance with the undertakings in Condition 4(b), the Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

16 Notices

Notices to Bondholders will be valid if (a) made in writing in English and mailed to them by uninsured mail at the Issuer's expense at their addresses which appear in the Register maintained by the Registrar; or (b) published at the expense of the Issuer, failing whom the Guarantor, in a leading English language daily newspaper having general circulation in Asia (which is expected to be The Wall Street Journal Asia). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to the holders of the Bonds shall be validly given by the delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

17 Currency Indemnity

The Singapore Dollar is the sole currency of account and payment for all sums payable by the Issuer or the Guarantor under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than Singapore Dollar (whether as a result of, or of the enforcement of, a judgement or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor (as the case may be) shall only constitute a

discharge to the Issuer and the Guarantor to the extent of the Singapore Dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Singapore Dollar amount is less than the Singapore Dollar amount expressed to be due to the recipient under any Bond, the Issuer and the Guarantor (as the case may be) shall indemnify it against any loss sustained by it as a result. In any event, the Issuer or the Guarantor (as the case may be) shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition 17, it will be sufficient for the Bondholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any other judgement, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgement or order.

18 Governing Law

- (a) **Governing Law:** The Bonds, the Deed of Guarantee and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, are all governed by and shall be construed in accordance with English law.
- (b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with the Bonds or the Deed of Guarantee ("Proceedings") may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.
- (c) **Service of Process:** Each of the Issuer and the Guarantor has agreed to receive service of process at the Issuer's principal place of business at 22/F, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong based on any of the Bonds or the Deed of Guarantee. If the Issuer ceases to have a place of business in Hong Kong, each of the Issuer and the Guarantor shall promptly appoint a person in Hong Kong to accept service of process on its behalf and deliver to the Trustee a copy of such person's acceptance of that appointment within 30 days of such cessation. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- (d) **Waiver of Immunity:** Each of the Issuer and the Guarantor hereby waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement made or given in connection with any Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions.

Terms defined in the Terms and Conditions of the Bonds set out in this Offering Circular have the meaning in the paragraphs below.

1 Initial Issue of Certificates

The Global Certificate will be registered in the name of a nominee (the “Registered Holder”) for a common depository for Euroclear and Clearstream, Luxembourg (the “Common Depository”) and may be delivered on or prior to the original issue date of the Bonds.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (“Alternative Clearing System”) as the holder of a Bond represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

3 Exchange

Transfers of the holding of Bonds represented by the Global Certificate pursuant to Conditions may only be made if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, provided that the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

4 Amendment to Conditions

The Global Certificate contains provisions that apply to the Bonds that it represents, some of which modify the effect of the terms and conditions of the Bonds set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

All payments in respect of Bonds represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which

shall be on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

4.3 Meetings

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each SGD250,000 in principal amount of Bonds for which the Global Certificate is issued.

4.4 Bondholder's Redemption

The Bondholder's redemption option specified in the Conditions may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent within the time limits specified in the Conditions, in accordance with the rules and procedures of Euroclear and Clearstream or any Alternative Clearing System, and stating the principal amount of Bonds in respect of which the option is exercised.

4.5 Issuer's Redemption

The option of the Issuer provided for in the Conditions shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Conditions.

4.6 Transfers

Transfers of beneficial interests in the Bonds represented by the Global Certificate will be effected through the records of Euroclear and Clearstream or any Alternative Clearing System and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream or any Alternative Clearing System and their respective direct and indirect participants.

4.7 Cancellation

Cancellation of any Bond represented by the Global Certificate will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders and the Global Certificate on its presentation to or to the order of the Registrar for annotation (for information only) in the Schedule to the Global Certificate.

4.8 Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for a clearing system, the Trustee may have regard to any

information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements in respect of the Bonds and may consider such interests as if such accountholders were the holders of the Bonds represented by the Global Certificate.

USE OF PROCEEDS

The Issuer estimates the net proceeds to it from its sale of the Bonds to be approximately SGD[●] million after deducting underwriting commissions and expenses.

The Company intends to use the net proceeds from the sale of the Bonds for (i) prepayment for purchase of aircraft, (ii) repayment of existing debt and (iii) working capital and other general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Guarantor

The following table sets forth the total capitalisation of the Guarantor as at 30 June 2017 and adjusted to give effect to the issue of the Bonds.

	As at 30 June 2017	
	Actual	Adjusted
	(RMB million)	(RMB million)
Current borrowings		
Current portion of long-term bank borrowings		
Secured	1,183	1,183
Unsecured	94	94
Short-term bank borrowings		
Unsecured	23,899	23,899
Short-term debentures	15,000	15,000
Total Current Borrowings	40,176	40,176
Non-current borrowings		
Long-term bank borrowings		
Secured	5,357	5,357
Unsecured	3,167	3,167
Guaranteed Bonds	8,497	8,497
Unsecured Bonds	8,821	8,821
Bonds to be issued ⁽¹⁾	—	[●]
Total non-current borrowings	25,842	[●]
Total borrowings	66,018	[●]
Equity		
Share capital	14,467	14,467
Reserves	39,469	39,469
Non-controlling interests	3,267	3,267
Total equity	57,203	57,203
Total capitalization ⁽²⁾	123,221	[●]

Notes:

- ⁽¹⁾ The aggregate principal amount of the Bonds to be issued has not taken into account the effect of transaction costs and expenses.
- ⁽²⁾ Total capitalisation equals the sum of total borrowings and total equity.

Capitalisation and Indebtedness of the Issuer

As at the date of this Offering Circular, the authorised share capital of the Issuer was HK\$30,000,000, divided into 30,000,000 ordinary shares of HK\$1.0 each, all of which are held by the Guarantor and are fully paid, representing the entire issued share capital of the Issuer.

The following table sets forth the capitalisation of the Issuer as at 30 June 2017, as adjusted to give effect to the issue of the Bonds:

	As at 30 June 2017	
	Actual	Adjusted
	(RMB'000)	(RMB'000)
Borrowings — non-current		
Interest — bearing bank borrowings	3,000,000,000	3,000,000,000
Bonds to be issued ⁽¹⁾	—	[●]
Borrowings — current		
Interest — bearing bank borrowings	3,042,329,584	3,042,329,584
Total borrowings	<u>6,042,329,584</u>	<u>[●]</u>
Equity		
Share capital	230,269,800	230,269,800
Total equity	<u>352,277,007</u>	<u>352,277,007</u>
Total capitalisation⁽²⁾	<u>6,394,606,591</u>	<u>[●]</u>

Notes:

- (1) The principal amount of the Bonds to be issued has not taken into account the effect of transaction costs and expenses.
- (2) Total capitalisation equals the sum of total borrowings and total equity.

DESCRIPTION OF THE ISSUER

Formation

The Issuer is a limited liability company incorporated under the Companies Ordinance (Cap. 622) of Hong Kong (CR No. 1614655). It was incorporated in Hong Kong on 10 June 2011. Its registered office is 22/F., Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong. The Issuer is a wholly-owned subsidiary of the Guarantor.

Business Activity

The Issuer is principally engaged in domestic and overseas investment, financing operations, aviation fuel trade business and overseas fund management. The Issuer, as a joint venture partner with Jetstar International Group Holdings Co., Limited, a wholly-owned Hong Kong-based subsidiary of Qantas, invested in Jetstar Hong Kong Airways. Please see “History and Development of the Company” for more details.. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue additional bonds, acquire additional aircraft and enter into leases of such aircraft, enter into fuel hedging and other related derivative transactions (and engage in other activities related to the aforementioned) and other businesses related to those of the Company and may incur additional liabilities and indebtedness.

Directors and Officers

The directors of the Issuer are Mr. Wu Yongliang, Mr. Wu Zhiwei, Mr. Jie Xiaoqing, Mr. Fang Zhigang and Mr. Lin Yi. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer.

Share Capital

The authorised share capital of the Issuer is HK\$30,000,000, divided into 30,000,000 ordinary shares of HK\$1.0 each, all of which have been issued and are fully paid. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

Summary Financial Information of the Issuer

Statement of Profit or Loss and Other Comprehensive Income

(prepared and presented in accordance with Hong Kong Financial Reporting Standards)

	Year ended 31 December 2015 (audited)	Year ended 31 December 2016 (audited)	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2017 (unaudited)
	(RMB)			
Revenue	2,766,564,063	2,884,400,140	1,229,520,889	1,658,788,548
Cost of sales	(2,519,074,646)	(2,689,189,353)	(1,124,541,258)	(1,572,394,623)
Gross profit	247,489,417	195,210,787	104,979,631	86,393,925
Other income and gains	120,674,168	175,832,314	125,436,492	47,343,968
Administrative expenses	(703,125)	(4,039,561)	(59,731)	(768,741)
Other expenses	—	(19,528,073)	(13,451,859)	—
Finance costs	(247,241,242)	(257,653,387)	(192,577,558)	(135,548,290)
Profit/(loss) before income tax	120,219,218	89,822,080	24,326,975	(2,579,138)
Income tax expense	(19,836,166)	(14,820,643)	(4,013,951)	—
Profit/(loss) for the year/period	100,383,052	75,001,437	20,313,024	(2,579,138)
Other comprehensive income for the year/ period				
Other comprehensive income to be reclassified to profit or loss in subsequent periods	—	—	—	(34,015,428)
Total comprehensive income/(loss) for the year/period	100,383,052	75,001,437	20,313,024	(36,594,566)

Statement of Financial Position
(prepared and presented in accordance with Hong Kong Financial Reporting Standards)

	31 December 2015 (audited)	31 December 2016 (audited)	30 June 2017 (unaudited)
	(RMB)		
Current assets			
Amount due from related parties	8,141,919,151	7,196,324,693	5,469,804,384
Cash and cash equivalents	<u>840,627,367</u>	<u>247,065,542</u>	<u>1,008,969,647</u>
Total current assets	8,982,546,518	7,443,390,325	6,478,774,031
Current liabilities			
Interest-bearing bank borrowings	3,084,416,800	4,000,000,000	3,042,329,584
Interest payable	53,531,718	16,396,209	29,652,726
Amount due to related parties	9,946,755	—	—
Tax payable	23,294,097	38,114,740	20,491,572
Other payables	7,713	7,713	7,713
Debentures	2,199,418,049	—	—
Derivative financial instruments	—	—	40,737,040
Total current liabilities	<u>5,370,615,132</u>	<u>4,054,518,662</u>	<u>4,054,518,662</u>
Net current assets	<u>3,611,931,386</u>	<u>3,388,871,573</u>	<u>3,133,218,635</u>
Total assets less current liabilities	<u>3,611,931,386</u>	<u>3,388,871,573</u>	<u>3,133,218,635</u>
Non-current liabilities			
Interest-bearing bank borrowings	—	3,000,000,000	3,000,000,000
Debentures	<u>3,298,061,250</u>	—	—
Total non-current liabilities	<u>3,298,061,250</u>	<u>3,000,000,000</u>	<u>3,000,000,000</u>
Net assets	<u>313,870,136</u>	<u>388,871,573</u>	<u>352,277,007</u>
Equity			
Share capital	230,269,800	230,269,800	230,269,800
Capital reserve	(3,784,369)	(3,784,369)	(37,799,797)
Retained profits	<u>87,384,705</u>	<u>162,386,142</u>	<u>159,807,004</u>
Total equity	<u>313,870,136</u>	<u>388,871,573</u>	<u>352,277,007</u>

The Issuer's revenue in 2015 and 2016 and the first half in 2017 primarily represents the sales of aviation fuel to the Guarantor. Other income and gains comprise primarily interest income, foreign exchange gains and gain on liquidation of an associate, whilst finance costs comprise primarily interest expense on debentures and interest expense on bank loans.

PRC REGULATIONS

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

- the administration of airports and air traffic control systems;
- aircraft registration and aircraft airworthiness certification;
- operational safety standards; and
- the liabilities of carriers.

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

- whether to apply for any route;
- the allocation of aircraft among routes;
- the airfare pricing for the international and regional passenger routes;
- the airfare pricing within the limit provided by the CAAC for the domestic passenger routes;
- the acquisition of aircraft and spare parts;
- the training and supervision of personnel; and
- many other areas of day-to-day operations.

Although the Company has generally been allocated adequate routes in the past to accommodate its expansion plans and other changes in its 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, the Company can give no assurance that its route structure will be adequate to satisfy its expansion plans.

The CAAC has established regulatory policies intended to promote controlled growth of the Chinese airline industry. The Company believes 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 its flexibility to respond to changes in market conditions, competition or its cost structure. Moreover, whilst the 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 its business operations.

Because the Company provides services on international routes, the Company is 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 Organisation, an agency of the United Nations established in 1947 to assist in the planning and development of international air transportation. The International Civil Aviation Organisation 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 the Company are also subject to these international aviation conventions, as well as certain foreign country aviation regulations and local aviation laws with respect to route allocation, landing rights and related flight operation regulation.

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 the Company, that have a hub located at each of the active air traffic centres 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.

Regional Route Rights

Air Transportation Arrangement. The Air Transportation Arrangement provides for equal opportunity for airlines based in Hong Kong and mainland China. Competition from airlines based in Hong Kong has 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 the Company's Hong Kong routes.

The CAAC and the Economic Development and Labour Bureau of Hong Kong entered into an agreement in 2007 to further expand the Air Transportation Arrangement. This agreement increases 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 in 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.

Prior to 2003, there was no direct air link between mainland China and 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 15 December 2008, mainland China and Taiwan commenced mutual direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under an agreement signed by the governments of 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 and 370 regular direct flights per week in 2009 and 2010, respectively. Mainland China and Taiwan agreed to increase flight destinations for air links between the two sides to

33 airports in various PRC cities in 2010, whilst flight destinations in Taiwan continue to include eight airports in various cities in Taiwan. At the end of 2012, the two sides agreed to increase the total number of flights to 616 per week and to increase the total number of destination airports in mainland China and Taiwan to 64. The two sides also previously agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, the Taoyuan and Kaohsiung airports. On 12 August 2013, the two sides agreed to increase the total number of flights to 670 per week and to add three terminals for chartered cargo flights to and from Tianjin, Zhengzhou and Ningbo airports. At the end of 2014, mainland China and Taiwan agreed to increase the total number of flights to 924 per week and to increase the total number of destination airports in mainland China to 65. In April 2015, the fifth batch of Mainland pilot cities was opened for individual tours to Taiwan, including Haikou, Hohhot, Lanzhou, Yinchuan, Changzhou, Zhoushan, Huizhou, Weihai, Longyan, Guilin and Xuzhou, and the number of Mainland cities with free line tours to Taiwan has reached 47.

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. 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 1 March 2001, domestic airlines were permitted to offer discounts on several major domestic routes.

On 17 March 2004, China's State Council approved the Pricing Reform Plan for the Domestic Civil Aviation Industry, or the Pricing Reform Plan, effective on 20 April 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 NDRC jointly publish pricing guidelines from time to time, which set forth the basic airfare levels and permitted ranges. Pursuant to the current pricing guidelines, the basic airfares for most domestic routes are the published airfares implemented by Chinese airlines immediately prior to the approval of the Pricing Reform Plan. Except for certain domestic routes, the actual airfare set by each Chinese airline for its domestic routes cannot be 25 per cent. higher 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 that, in their view, is not at a reasonable level. The CAAC and the NDRC issued a notice on 13 April 2010, effective on 1 June 2010, pursuant to which airlines may set first-class and business-class airfares in accordance with market prices, subject to relevant PRC laws. Such pricing must be filed 30 days before effectiveness with the CAAC and the NDRC. The Company expects that, as this and other reforms continue, it will have more flexibility in operating its 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 favourable environment for the growth of the Company's business.

At the end of 2014, the CAAC and the NDRC jointly promulgated The Notice on Further Improving the Problems About Civil Aviation Domestic Air Transport Price Policy, which lifted the control over the civil domestic airlines cargo freight rate and changed the prices of specific airlines from government- oriented pricing to market-oriented pricing.

At the end of 2015, the CAAC announced the Implementation Opinion on the Reform of Mechanism of Prices and Service Fee in Civil Aviation Transport, which sets the goal to generally lift the control over the prices and service fee in competitive part of civil aviation transport by 2017, and to generally set up a basically optimized, scientific, standardized, transparent and market-oriented pricing regulatory system by 2020.

In October 2016, the CAAC and the NDRC jointly promulgated the Circular on the Further Reform of Passenger Transport Price Policy in Civil Aviation Domestic Air Transport, which loosened the control over the civil domestic airlines passenger transportation and changed the prices from government- oriented pricing to market-oriented pricing. According to the circular, the price of routes under 800km or routes over 800km that are in competition with HSRs for passenger transportation can be determined independently.

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

whole, the airfare per kilometre is substantially higher for regional and international routes than that for domestic routes.

Acquisition of Aircraft and Spare Parts

The Company is permitted to import aircraft, aircraft spare parts and other equipment for its own use from manufacturers through Eastern Aviation Import & Export Co., Ltd. (the “EAIEC”), which is 55 per cent. owned by CEA Holding and 45 per cent. owned by the Company. This gives the Company freedom in rationalising its maintenance practices by allowing it to maintain a relatively lower overall inventory level of aircraft parts and equipment than the Company otherwise would have to maintain. The Company is still required to obtain an approval from the NDRC and may be subject to appraisal of the relevant competent authorities for any import of aircraft. The Company generally pays a commission to EAIEC in connection with these imports.

Domestic Fuel Supply and Pricing

The CAOSC, which is supervised by the State-owned Assets Supervision and Administration Commission, or the SASAC, is currently the dominant civil aviation fuel supply company in China. The Company currently purchases a significant portion of its domestic fuel supply from the China National Aviation Fuel Co., Ltd. (the “CNAF”), a subsidiary of 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 the CAAC from 2006 to 2008. In the second half of 2008, international crude oil prices decreased significantly, leading the NDRC and the CAAC to suspend fuel surcharges for domestic passenger routes with effect from 15 January 2009. A Notice Concerning the Relevant Issues on Establishing Linkage Mechanism for Passenger Fuel Surcharges on Domestic Routes and the Price of Domestic Aviation Coal Oil Fuel (the “2009 Notice”) by the NDRC and the CAAC, with effect from 14 November 2009, provided that fuel surcharges shall be charged by the airlines, at the airline’s discretion, but within certain limits for imposing fuel surcharges as set forth in the 2009 Notice. On 24 March 2010, the NDRC and the CAAC issued the Notice Regarding the Publication of Passenger Fuel Surcharges Rate on Domestic Routes, which reduced the maximum standard fuel surcharge by 3.1 per cent. for domestic routes. In addition, on 30 March 2011, the NDRC and the CAAC issued another similar notice, which further adjusted the maximum standard fuel surcharge downwards. From 1 August 2011, according to the Announcement on the Linking Mechanism for Fuel Surcharges and Aviation Coal Oil Fuel, issued by the NDRC and the CAAC, the rate of domestic route fuel surcharges will be adjusted each month if the difference in consolidated purchase costs for domestic aviation coal oil fuel exceeds RMB250 per ton.

On 24 March 2015, the CAAC and the NDRC jointly promulgated the Notice on Adjustment of the Linking Mechanism for Fuel Surcharges and Aviation Coal Oil Fuel in Passenger Transport of Domestic Airlines, in which they decided to increase the base price of aviation coal oil fuel from RMB4,140 per ton to RMB5,000 per ton.

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 licences. Each pilot is required to pass the CAAC-administered examinations before obtaining a pilot licence 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 the Company's 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.

In early 2013, the CAAC amended the original Civil Aviation Incidents Standards and published the new Civil Aviation Incidents Standards (MH/T2001-2013), which became effective as at 1 March 2013. The CAAC amended the Management Rules on Safety Information of Civil Aviation which became effective on 4 April 2016 and required that related Chinese airlines should arrange a certain number of specialists that satisfied certain special requirements to take charge of the management of safety information. The CAAC promulgated the new Administrative Provisions on Emergencies of China's Civil Aviation which became effective from 17 April 2016 and formulated the duties and responsibilities of Chinese airlines on the prevention and emergency preparedness, prediction and early warning, emergency disposal, handling and other emergency work of civil aviation. The Company has policies to ensure its relevant employees implement the new standards, which will enable it to enhance its daily operations. For more information on the safety standards and measures implemented by us, see “— Maintenance and Safety — Safety.” In 2016, the CAAC promulgated the new Administrative Provisions on Civil Aviation Safety Information. As a result, the Company formulated new internal regulations on aviation safety information to strengthen the safety of its information system.

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 organisations. 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 and applicable local laws. The Company believes that it 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 modelled 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. The Company believes that it 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 transferred 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. The Company's revenue for the previous years is shown net of this levy. In 2003, the levy was 5 per cent. of domestic airfares and 2 per cent. of international airfares. The levy was waived by the CAAC from 1 May 2003 to 31 December 2003. With effect from September 2004, the civil aviation infrastructure levies, now paid to the Ministry of Finance, have been reflected in airfares of Chinese airlines rather than collected as a separate levy.

On 28 December 2007, the CAAC and the NDRC released the Implementing Scheme for the Civil Aviation Airport Charges Reform Implementation Plan, which was implemented on 1 March 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 guide prices, in which the standard prices are rarely increased, whilst reduced rates can be negotiated between the airport or the service provider and the users. The plan grants the Company the right to negotiate with airports on the airport charges.

The refunded levy for China's aviation industry during the said period amounted to approximately RMB4 billion in total. The ten measures also include measures to enhance safety, reduce taxes, invest in infrastructure and optimise the airspace and air routes.

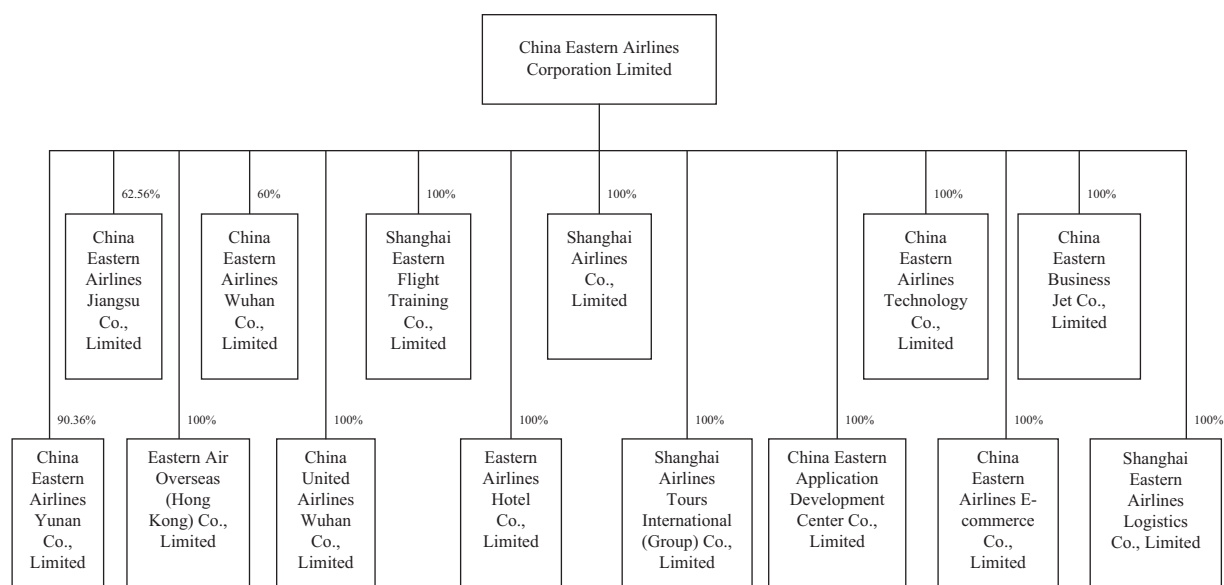
Limitation on Foreign Ownership

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 individually or together hold a majority of the Company's total outstanding shares. As at 31 December 2013, approximately 12.4 per cent. of the Company's total outstanding shares were held by non-Chinese residents and Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). For PRC air transportation companies, pursuant to the Catalogue of Industries for Guiding Foreign Investment jointly promulgated by the NDRC and MOC on 10 March 2015, Chinese investors should be the controlling shareholders of a PRC air transportation company and the total shares held by foreign investment enterprises and its associated enterprises are not permitted to exceed 25 per cent. of the total shares of a Chinese airline.

HISTORY AND DEVELOPMENT OF THE COMPANY

The Guarantor was established on 14 April 1995 under the laws of China as a company limited by shares in connection with the restructuring of its predecessor and its initial public offering. The Guarantor's predecessor was one of the six original airlines established in 1988 as part of the decentralisation 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 its initial public offering, the Guarantor's predecessor was restructured into two separate legal entities, the Guarantor and the Eastern Air Group Company, or "EA Group". According to the restructuring arrangement, by operation of law, the Guarantor succeeded to substantially all of the assets and liabilities relating to the airline business of its predecessor. EA Group succeeded to its predecessor's assets and liabilities that do not directly relate to the airline operations and do not compete with the Guarantor's businesses. Assets transferred to EA Group included the Guarantor's 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, the Guarantor entered into various agreements with EA Group and its subsidiaries for the provision of certain services to the Guarantor. 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.

The following chart sets forth the organisational structure of the Guarantor and its significant subsidiaries as at 30 September 2017:



The Guarantor is the first China-based airline to have its shares listed simultaneously on the Hong Kong Stock Exchange, the New York Stock Exchange and the Shanghai Stock Exchange. In February 1997, the Guarantor completed its initial public offering of 1,566,950,000 ordinary H Shares, par value RMB1.00 per share, and listed its ordinary H Shares on The Stock Exchange of Hong Kong Limited, or the "Hong Kong Stock Exchange", and American Depositary Receipts, or "ADRs", representing its H Shares, on the New York Stock Exchange. In October 1997, the Guarantor completed a public offering of 300,000,000 new ordinary domestic shares in the form of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. H Shares are its ordinary shares listed on the Hong Kong Stock Exchange, and A Shares are its ordinary shares listed on the Shanghai

Stock Exchange. The Guarantor's 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.

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

In August 2002, the Guarantor, 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 the Guarantor held a 40 per cent. equity interest. CEA Wuhan's operating results were consolidated with the Guarantor from January 2006, when the Guarantor obtained control of CEA Wuhan. In March 2006, the Guarantor completed its acquisition of a 38 per cent. equity interest and a 18 per cent. 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. In 2012, the existing shareholders of CEA Wuhan and certain new investors (thereby becoming shareholders) decided to increase the registered capital of CEA Wuhan from RMB600 million to RMB1,750 million. As at 31 December 2012, the Guarantor had contributed capital of RMB525 million in cash, among which RMB237 million was recognised as registered capital and RMB288 million was credited to the share premium of CEA Wuhan; and the other investors had contributed capital of RMB300 million, among which RMB288 million was recognised as registered capital and RMB12 million was recognised as share premium of CEA Wuhan. As a result of the aforementioned capital increase, the Guarantor's share percentage in CEA Wuhan has become 60 per cent. CEA Wuhan primarily serves the market in central China.

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

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

On 14 March 2006, the Guarantor entered into an official sponsorship agreement with the Bureau of 2010 Expo Shanghai (the "Bureau"), which designated the Guarantor as the exclusive airline

passenger carrier in China to sponsor the 2010 Shanghai Expo. Pursuant to the agreement, the Guarantor was 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. The Guarantor was also able to enjoy the privileges of being a market development participant of the World Expo.

On 10 December 2008, the Guarantor entered into an A Share Subscription Agreement with CEA Holding for CEA Holding to subscribe for new A shares to be issued by the Guarantor, and entered into an H Share Subscription Agreement with CES Global, a wholly-owned subsidiary of CEA Holding, for CES Global to subscribe for new H shares to be issued by the Guarantor. Both of these agreements were amended on 29 December 2008. Under the amended agreements, the Guarantor agreed to issue 1,437,375,000 new A shares to CEA Holding and 1,437,375,000 new H shares to CES Global for an agreed-upon subscription price. On 26 February 2009, the Guarantor received the approval for the non-public issuances of the A and H shares in a class meeting of A share shareholders, a class meeting of H share shareholders, and an extraordinary general meeting of shareholders. The Guarantor completed the issuances of 1,437,375,000 new A Shares to CES Holding and 1,437,375,000 new H shares to CES Global on 25 June 2009 and 26 June 2009, respectively.

On 10 July 2009, the Guarantor's Board approved an issuance of 1,350,000,000 new A shares of the Guarantor to a limited number of specific investors, including CEA Holding, and the issuance of 490,000,000 new H shares of the Guarantor to CES Global. The issuances of the 1,350,000,000 new A shares and 490,000,000 new H shares were completed on 23 December 2009 and 10 December 2009, respectively.

On 10 July 2009, the Guarantor entered into an absorption agreement with Shanghai Airlines in relation to the proposed acquisition of Shanghai Airlines. The proposed acquisition was approved in a shareholders' meeting of the Guarantor on 9 October 2009. On 30 December 2009, the Guarantor received approval of its proposed acquisition of Shanghai Airlines from the CSRC. On 28 January 2010, the Guarantor issued 1,694,838,860 A shares to the shareholders of Shanghai Airlines in exchange for all existing issued shares of Shanghai Airlines. In 2010, the Guarantor integrated the operations of Shanghai Airlines by undertaking and completing various post-acquisition administrative measures, such as the transfer and registration of properties and other assets, as well as the integration of the two airlines' frequent flyer mileage programmes.

On 26 July 2010, the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province, or "Yunnan SASAC", entered into an agreement with the Guarantor to jointly establish Eastern Airlines Yunnan Limited Corporation, or EA Yunnan. The Guarantor would contribute 65 per cent. of the registered capital of EA Yunnan, with the remaining 35 per cent. contributed by Yunnan SASAC. EA Yunnan focuses on the provision of general civil aviation transportation and maintenance services.

On 20 December 2010, China Cargo Airlines, a subsidiary of the Guarantor, as purchaser, and Great Wall Airlines, as vendor, entered into an agreement for the acquisition of the assets, being all valuable business carried on by, and all valuable assets of, Great Wall Airlines, at RMB386.9 million (subject to adjustments). The acquisition aligned with the development strategy of the Guarantor and enhanced China Cargo Airlines' capability for sustainable development, whilst avoiding horizontal competition. China Cargo also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. Both acquisitions obtained approval from the CAAC, the NDRC and the MOFCOM. Both acquisitions were completed on 1 June 2011.

On 11 August 2011, the Issuer issued offshore CNY denominated bonds in an amount of CNY2.5 billion at 4 per cent. due 2014 which are listed on the Singapore Exchange Securities Trading Limited. The Guarantor guaranteed the bond issue.

On 23 March 2012, the Guarantor entered into a binding memorandum of understanding (the “MOU”) with Jetstar Airways, a wholly-owned subsidiary of Qantas, to establish Jetstar Hong Kong, a new joint venture low-cost airline to be based in Hong Kong. On 24 August 2012, the Issuer entered into a shareholders’ agreement (the “Shareholders’ Agreement”) with JIGH, a wholly-owned Hong Kong-based subsidiary of Qantas, pursuant to which the Issuer and JIGH invested in Jetstar Hong Kong. The Guarantor and JIGH made equal initial capital contributions of US\$57.5 million each, and the joint venture, Jetstar Hong Kong, had a total initial capital of US\$115 million. Depending on certain terms and conditions, the Guarantor and JIGH each contributed equal capital amounts to increase the capital of Jetstar Hong Kong to US\$198 million. Under the terms of the MOU and the Shareholders’ Agreement, the Guarantor and JIGH would hold equal equity interests in Jetstar Hong Kong. In September 2012, Jetstar Hong Kong received the Certificate of Incorporation issued by the relevant Hong Kong government authorities. In January 2013, Jetstar Hong Kong successfully passed MOFCOM’s merger review. On 5 June 2013, the Issuer, JIGH and Go Harvest Investments Limited (“Shun Tak Investor”), a wholly-owned Hong Kong-based subsidiary of Shun Tak Holdings Limited, entered into a restated and amended shareholders’ agreement (the “Restated and Amended Shareholders’ Agreement”). Pursuant to the Restated and Amended Shareholders’ Agreement, Shun Tak Investor would become a new strategic shareholder of Jetstar Hong Kong and hold 33 1/3 per cent. of the total issued share capital of Jetstar Hong Kong.

On 27 April 2012, the Board of Directors of the Guarantor resolved and approved to issue short-term commercial paper in the aggregate principal amount of not more than RMB10 billion and for a term of not more than 270 days for each issuance, which can be issued in multiple tranches on a rolling basis. On 13 September 2012, the Guarantor issued the first tranche of short-term commercial paper in the amount of RMB4 billion at 4.1 per cent. due within 270 days of the issuance. The proceeds from the issuance were to be used to repay bank loans, improve the Guarantor’s financing structure and replenish short-term working capital.

On 12 June 2012, the Board of Directors of the Guarantor resolved and approved to issue corporate bonds in the aggregate principal amount of not more than RMB8.8 billion and for a term of not more than ten years for a single or multiple issuances. The Guarantor received CSRC approval for the issuance on 12 December 2012. On 18 March 2013, the Guarantor issued the first tranche of corporate bonds in the amount of RMB4.8 billion at 5.05 per cent. due 2023. The proceeds from the issuance were to be used to repay bank loans, improve the Guarantor’s financing structure and replenish short-term working capital.

On 11 September 2012, the Board of Directors of the Guarantor resolved and approved the “Proposal for the non-public issuance of A Shares to specific places by China Eastern Airlines Corporation Limited” and the “Proposal for the non-public issuance of H Shares to specific places by China Eastern Airlines Corporation Limited”, according to which, (i) CEA Holdings and CES Finance would subscribe in cash for 241,547,927 and 457,317,073 new A Shares, respectively, at the subscription price of RMB3.28 per share; and (ii) CES Global would subscribe in cash for 698,865,000 new H Shares (nominal value of RMB1.00 each) at the subscription price of HK\$2.32 per share. On 31 January 2013, the CSRC approved the Guarantor’s proposed issue of no more than 698,865,000 new H Shares with a nominal value of RMB1.00 each. The Public Offering Review Committee of CSRC reviewed and conditionally approved the Guarantor’s application relating to the non-public issue of new A Shares of the Guarantor on 25 February 2013. The issuance of the 698,865,000 new A Shares

was completed on 18 April 2013 and the issuance of the 698,865,000 new H Shares was completed on 21 June 2013.

On 27 December 2012, the Guarantor's wholly-owned subsidiary, Shanghai Airlines Tours entered into an equity transfer agreement with Eastern Air Tourism Investment Group Co., Ltd. ("Eastern Tourism"), a wholly-owned subsidiary of CEA Holding, and Shanghai Dongmei Aviation Travel Co., Ltd. ("Shanghai Dongmei") which was held as to 72.84 per cent. by Eastern Tourism and 27.16 per cent. by the Guarantor, pursuant to which Shanghai Tours purchased the entire issued share capital of Xi'an Dongmei Aviation Travel Co., Ltd. ("Xi'an Dongmei") held by Eastern Tourism and Shanghai Dongmei. Upon completion of this acquisition, Xi'an Dongmei becomes an indirect wholly-owned subsidiary of the Guarantor.

On 27 December 2012, Shanghai Tours entered into an equity transfer agreement with Eastern Tourism and Shanghai Dongmei, pursuant to which Shanghai Tours purchased the entire issued share capital of Kunming Dongmei Aviation Travel Co., Ltd. ("Kunming Dongmei") held by Eastern Tourism and Shanghai Dongmei. Upon completion of this acquisition, Kunming Dongmei becomes an indirect wholly-owned subsidiary of the Guarantor.

On 10 January 2013, Shanghai Tours entered into an equity transfer agreement with Eastern Tourism, pursuant to which Shanghai Tours purchased the entire issued share capital in Shanghai Eastern Air International Travel Service Co., Ltd ("Eastern Travel") held by Eastern Tourism. Upon completion of this acquisition, Eastern Travel becomes an indirect wholly-owned subsidiary of the Guarantor.

On 5 June 2013, the Guarantor issued the guaranteed bonds in the amount of RMB2.2 billion at 3.875 per cent. due 2016. The proceeds from the issuance were to be used for working capital and other general corporate purposes.

On 7 June 2013, the Guarantor issued the first tranche of super short-term commercial paper in the amount of RMB4 billion at 3.95 per cent. due within 270 days of the issuance. The proceeds from the issuance were to be used to replenish corporate working capital.

On 30 August 2013, the Guarantor renewed a series of agreements for the provision of goods and/or services with certain members of CEA Holding and its subsidiaries and other associates (excluding the Group) ("CES Holding Group"), including (i) property leasing agreement with CEA Holding, (ii) financial services agreement with Easter Air Group Finance Company Limited, (iii) import and export agency agreement with Eastern Aviation Import & Export Company, (iv) catering services agreement with Eastern Air Catering Investment Co. Ltd., (v) sales agency services agreement with Shanghai Dongmei, (vi) maintenance and repair services agreement with CEA Development Co., and (vii) advertising services agreement with Eastern Aviation Advertising Company Limited.

On 24 December 2013, the Guarantor and CEA Holding, both being the shareholders of CES Media passed a shareholders' resolution regarding the capital injection in CES Media. Upon completion of this capital injection, the total registered capital of CES Media increased by RMB80 million from RMB120 million to RMB200 million, while the respective 45 per cent. and 55 per cent. equity interests held by the Guarantor and CEA Holding in the then enlarged registered capital of CES Media remain unchanged. Out of the RMB80 million contributed to the registered capital of CES Media under this capital injection, the Guarantor contributed a pro-rata amount of RMB36 million in cash and CEA Holding contributed the remaining pro-rata amount of RMB44 million in cash.

On 17 July 2014, Eastern Air Overseas (Hong Kong) Corporation Limited ("EAO" or the "Issuer"), a wholly-owned subsidiary of the Guarantor, and Jetstar Hong Kong Airways Limited

(“Jetstar Hong Kong”), an associated company of the Guarantor, entered into a loan agreement, pursuant to which EAO would provide a loan of US\$60 million to Jetstar Hong Kong at fair market interest rates. The principal of the loan was repaid on 30 April 2015.

On 15 August 2014, Shanghai Airlines Tours, a wholly-owned subsidiary of the Guarantor, entered into an equity transfer agreement with Eastern Tourism, pursuant to which Shanghai Airlines Tours acquired 72.84 per cent. equity interest in Shanghai Dongmei from Eastern Tourism with consideration of RMB32,147,700. This acquisition was completed and Shanghai Dongmei became an indirect subsidiary of the Guarantor.

On 22 December 2014, the Guarantor, CEA Holding and CES Finance (as shareholders of Eastern Air Finance) agreed to inject a total of RMB1,500 million into Eastern Air Finance in proportion according to their respective shareholding in Eastern Air Finance. In February 2015, the Guarantor contributed a pro-rata amount of RMB375 million in cash.

On 29 March 2015, China United Airlines, a wholly-owned subsidiary of Guarantor, fully adopted the low-cost carrier service model.

On 30 May 2015, the Guarantor received approval from the Ministry of Industry and Information Technology to offer in-flight Wi-Fi services using KU-band satellite onboard 21 aircraft.

On 9 July 2015, the Guarantor entered into the B737 Aircraft Purchase Agreement with Boeing Company in Shanghai to purchase fifty B737 series aircraft from Boeing Company.

On 27 July 2015, the Guarantor entered into a conditional subscription agreement (the “Subscription Agreement”) with Delta Air Lines, pursuant to which Delta Air Lines agreed to subscribe for 465,910,000 shares of the newly issued ordinary H shares of the Guarantor in an amount of HK\$3,488,895,000, representing approximately 3.55 per cent. of the then total share capital of the Guarantor. On 9 September 2015, the Guarantor completed the issue of 465,910,000 ordinary H shares to Delta Air Lines, with a par value of RMB1.00 each at an issue price of HK\$7.49 per share.

On 14 August 2015, the Board of Directors of the Guarantor approved the “Resolution on the Termination of the Proposed Establishment of Jetstar Hong Kong and its Winding Up”. The Board of Directors of the Guarantor considered that the termination of the proposed establishment of Jetstar Hong Kong would have no material adverse impact on the financial conditions and production and operation of the Guarantor. See the announcement furnished to the SEC on Form 6-K dated 17 August 2015.

On 28 August 2015, the Guarantor formally established the foreign airlines service centre.

On 1 September 2015, Delta Air Lines and the Guarantor entered into a marketing agreement and a letter of confirmation on the Subscription Agreement. Pursuant to the marketing agreement, both parties would have greater cooperation in terms of code-sharing, revenue management, schedule coordination, sales cooperation, airport facilities sharing, frequent-flyer programme, lounge and system investment as well as staff exchange. On 9 September 2015, the Guarantor completed the issue of 465,910,000 ordinary H shares with a par value of RMB1.00 each at an issue price of HK\$7.49 per share.

On 6 November 2015, the CAAC officially announced and granted the “Safe Flight Diamond Award”, the highest award for flight safety in the PRC civil aviation industry, to the Guarantor.

In January 2016, the Guarantor received the “Approval for the Non-Public Issuance of A Shares by China Eastern Airlines Corporation Limited” (Zheng Jian Xu Ke [2016] No. 8) issued by the CSRC, approving the Guarantor to issue not more than 2,329,192,546 A Shares by way of non-public issuance.

On 21 April 2016, the Guarantor and Ctrip entered into a strategic cooperation framework agreement in Shanghai, pursuant to which both parties will commence extensive cooperation, including business cooperation, equity cooperation and cooperation in the capital market, in line with the principle of complementary strength and mutual benefit and success in order to further consolidate their leading position in their respective industry.

On 25 April 2016, the Guarantor and Shanghai Disneyland Resort launched the first painted aircraft of CEA with theme of Disneyland in public debut.

On 28 April 2016, the Guarantor entered into the Airbus Purchase Agreement with Airbus SAS to purchase twenty Airbus A350-900 aircraft. On the same day, the Guarantor entered into the Boeing Purchase Agreement with Boeing Company to purchase fifteen brand new Boeing B787-9 aircraft. On the same day, the Guarantor entered into the 2016 Aircraft Finance Lease Framework Agreement and the 2017–2019 Aircraft Finance Lease Framework Agreement with CES Leasing, pursuant to which CES Leasing agreed to provide finance leasing to the Guarantor in relation to aircraft.

On 23 May 2016, the Guarantor introduced platinum card membership level under “Eastern Miles”.

On 5 July 2016, the Guarantor announced the issuance of 1,327,406,822 A shares which raised RMB8,548.5 million of proceeds.

On 30 August 2016, the Guarantor renewed a series of agreements for the provision of goods and/or services with certain members of the CEA Holding Group and the Group, including: (i) property leasing agreement with China CEA Holding, (ii) financial services agreement with Easter Air Group Finance Company Limited, (iii) import and export agreement with Eastern Aviation Import & Export Company, (iv) catering services agreement with Eastern Air Catering Investment Co. Ltd., (v) complementary services agreement with CEA Development Co., and (vi) advertising services agreement with China Eastern Airlines Media Company Limited.

On 1 November 2016, the Guarantor and Commercial Aircraft Corporation of China Limited signed a cooperation framework agreement, according to which the Company became first user of C919 large passenger aircraft in the world.

On 15 November 2016, the Guarantor was awarded the most important honour under CAPA Aviation Awards for Excellence 2016 — Airline of the Year in Asia-Pacific region and was the first airline company in China awarded this honour.

On 23 November 2016, the Guarantor was awarded China Securities Golden Bauhinia Award — Listed company with best investment value in 13th Five-year Plan period.

On 29 November 2016, the Guarantor entered into the Disposal Agreement with Eastern Airlines Industry Investment, a wholly-owned subsidiary of CEA Holding, pursuant to which, the Guarantor conditionally agreed to sell, and Eastern Airlines Industry Investment conditionally agreed to purchase, the entire equity interest in Eastern Logistics. On the same day, the Guarantor and Eastern Logistics entered into the Freight Logistics Daily Connected Transactions Framework Agreement, pursuant to which Eastern Logistics agreed to provide the Group with daily operation services of freight logistics business. On 8 February, the disposal of Eastern Logistics was completed.

On 1 January 2017, the Guarantor and China Cargo Airlines entered into the Management Agreement, pursuant to which China Cargo Airlines was entrusted to manage the bellyhold space freight business of the Group.

On 27 July 2017, the Guarantor entered into a Marketing Agreement with Air France-KLM. On the basis of good business relationship between the two parties, the comprehensive business partnership has been further strengthened.

The table below sets forth details of the Company's operating fleet since 2014 and planned additions for the years 2017 and 2018:

	Number of Aircraft Owned and under Finance Leases		Number of Aircraft Owned and under Operating Leases		Number of Aircraft Owned and under Finance Leases		Number of Aircraft Owned and under Operating Leases		Number of Aircraft Including Planned Additions	
	2014	2015	2016	2017	2018	2017	2018	2017	2018	
B777-300ER . . .	4	—	9	—	16	—	20	20		
B767	6	—	6	—	6	—	4	—		
A350-900	—	—	—	—	—	—	—	2		
A340-600	4	—	—	—	—	—	—	—		
A330-300	9	7	11	7	11	7	25	26		
A330-200	25	3	30	3	30	3	33	30		
A321	39	—	48	—	66	—	77	77		
A320	113	41	122	38	127	36	179	180		
A320NEO	—	—	—	—	—	—	—	15		
A319	24	5	31	4	33	3	35	35		
B787-9	—	—	—	—	—	—	—	4		
B757-200	4	1	—	—	—	—	—	—		
B737-8MAX	—	—	—	—	—	—	—	7		
B737-800	44	68	71	72	93	78	198	228		
B737-700	49	13	55	8	55	8	56	55		
B737-300	16	—	5	—	—	—	—	—		
EMB 145LR	10	—	6	—	—	—	—	—		
B747-400F	2	2	2	1	2	1	2	1		
B757-200F	—	2	—	—	—	—	—	—		
B777F	—	6	—	6	—	6	—	6		
Total	<u>349</u>	<u>148</u>	<u>396</u>	<u>139</u>	<u>439</u>	<u>142</u>	<u>629</u>	<u>686</u>		

DESCRIPTION OF THE COMPANY'S BUSINESS

BUSINESS OVERVIEW

The Company was one of the three largest air carriers in China in terms of revenue, tonne-kilometres (or RTK) and number of passengers carried in 2016. The Company is an important domestic airline that operates primarily from its core hub in Shanghai, which is considered to be the international financial and shipping centre of China, and regional hubs in Kunming and Xi'an. The Company's business primarily focuses on the operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services. As at 30 June 2017, the Company served a route network that covered 1,074 domestic and foreign destinations in 177 countries through SkyTeam, an international airlines alliance. Compared to 2015, the Company's traffic volume (as measured in RTKs) increased by 10.6 per cent. from 17,820 million in 2015 to 19,712 million in 2016. The Company's passenger traffic volume (as measured in revenue passenger-kilometres, or RPKs) increased by 14.5 per cent. from 146,342 million in 2015 to 167,529 million in 2016. The Company's cargo and mail traffic volume (as measured in revenue freight tonne-kilometres, or RFTKs) increased by 0.2 per cent. from 4,865 million in 2015 to 4,875 million in 2016. For the six months ended 30 June 2017, the Company has achieved 9,178 million, 88,147 million and 1,366 million in terms of traffic volume, passenger traffic volume and cargo and mail traffic volume, respectively.

COMPETITIVE STRENGTHS

The Company's vision is to become a leading airline in Asia and a leading global competitor by emphasizing staff loyalty, customer preference, investor satisfaction and social responsibility. The Company believes that its business model is favourable to that of other major airlines in a number of significant respects, which the Company intends to continue to pursue. The Company's main competitive strengths include the Company's status as a Central SOE (which is defined as an enterprise directly and majority owned by the SASAC), its position to benefit from the continued high growth of China's international civil aviation market, its favourable connectivity and geographical position, its high operating efficiency, its improved financial and liquidity position, its strategic SkyTeam membership, its experienced management team and sound corporate governance, as well as strong recognition of the China Eastern Airlines brand.

A Central SOE with strong and direct support from the PRC central government

CEA Holding is one of the 98 Central SOEs directly supervised by the SASAC of the PRC central government. The Company is 56.38 per cent. owned by CEA Holding, which in turn is 100 per cent. owned by the SASAC. The Company enjoys a number of direct and indirect benefits as a result of its status as a Central SOE. For example, the Company received an aggregate amount of RMB868 million in government subsidies and achieved revenue of RMB1,871 million from routes co-operated with the government for the six months ended 30 June 2017. The Company believes that its status as a Central SOE well positions it to better execute its business plan and to more directly benefit from China's high economic growth.

Well positioned to benefit from the continued high growth of China's international civil aviation market

The Company believes that, based on its established market position and geographic location, it is well-positioned to continue to take advantage of the opportunities presented by China's international civil aviation market growth. In recent years, the trending of outbound tourism galvanized the market of international airline services. During the period from 2010 to 2015, total traffic volume and

passenger traffic volume for China's international airline transportation have recorded increases of 8.7 per cent. and 16.9 per cent., respectively. China's international airline transportation market is expected to achieve and keep at an annual growth rate of more than 15 per cent. during the period from 2016 to 2021. In 2020, airline transportation services are expected to cover 93.2 per cent. of China's prefecture-level cities, 89 per cent. of county-level administrative units, 95 per cent. of China's GDP and 92 per cent. of China's population. The Company believes it is well positioned with its dual hubs in Shanghai and Beijing, two of the China's biggest airline markets, to capitalise on the market growth of China's international civil aviation.

Favourable connectivity and geographical position

Shanghai is China's leading international financial centre and international shipping centre. Shanghai handled the largest amount of cargo freight in terms of freight and cargo traffic and the largest amount of flight passengers in terms of passenger traffic among all cities in China in 2016. The Company believes that the operation of its services through its hub in Shanghai, combined with its network that covers 1,074 domestic and international destinations in 177 countries through SkyTeam and its high frequency of flights as at 30 June 2017, allow it to maximise connectivity across the markets and locations that it serves. The Company also strategically develops its hubs in Beijing, which handled the second largest number of flight passengers and cargo freight in China in 2016, and from leading airports in north-west and south-west China (Xi'an and Kunming, respectively). The Company has also developed cooperative relationship with strategic partners to enhance its hub network. For example, in response to the competition from HSR network, the Company has cooperated with the Shanghai Railway Bureau to launch "Air-Rail Pass Transportation" products offering combined air and rail service package in 13 cities in the Yangtze River Delta, including Nanjing, Hangzhou and Suzhou in 2012. In addition, the Company launched its "Air-Bus Pass" service covering routes such as Shanghai Pudong-Kunshan/Suzhou/Wuxi, Baoshan-Tengchong and Tianjin-Tanggu in 2013 and Wuhan-Huangshi route in 2014 in order to further improve the connectivity of the Company's flights.

Economies of scale and high operating efficiency

The Company has ranked as one of the 10 largest airlines in the world by IATA in terms of number of scheduled passengers carried. Leveraging on its economies of scale, the Company has continued to improve its operating efficiency in recent years and intends to maintain this momentum. The Company's operating efficiency is indicated by its annual fleet average utilisation rates which were 9.7 hours per passenger aircraft per day in 2016. According to the 2015 Statistical Bulletin of the Development of Civil Aviation Industry published by the CAAC, the industry average annual fleet utilisation rate was 9.49 per aircraft per day.

Improved financial and liquidity position and diversified sources of funding

The Company's financial and liquidity position have continued to strengthened. The Company's liability ratio (defined as total liabilities divided by total assets) has improved from 79.83 per cent. as at 31 December 2015 to 74.69 per cent. as at 30 June 2017. The Company's outstanding funding has been obtained from a number of different sources, including funds generated from operation, operating leases, commercial bank lending, export credit guaranteed bank funding and debt securities issued into the capital markets. Accordingly, the Company has established, and intends to maintain, a diversified portfolio of funding instead of relying on any single source of funding.

Strategic cooperation with SkyTeam Alliance members

On 21 June 2011, the Company became a member of SkyTeam. The Company's membership in SkyTeam has raised the Company's standards in terms of marketing, service and other areas and further strengthened its market presence and traffic volume in the international civil aviation market by offering the Company's customers more convenience and ease when making their international travel plans. As a SkyTeam member, the Company benefits from its strategic alliance with well-known airlines such as Delta Air Lines, China Southern, Alitalia, Air France-KLM, which allows its passengers to enjoy the benefits such as increased flight choices, smoother transfers for long-distance or inter-continental travels, priority check-in and enhanced frequent flyer programme privileges. In addition to the alliance with SkyTeam, the Company continues to deepen collaboration on code-sharing with other airline companies, such as Japan Airlines and Qantas.

Experienced management team and sound corporate governance

The Company believes that its management team is well experienced in the civil aviation industry and is capable of providing expertise to achieve the Company's business objectives. As at 30 June 2017, the Company's Board is composed of 11 directors, 4 of whom are independent non-executive directors. The Company's Chairman, Mr. Liu Shaoyong, joined the civil aviation industry in China in 1978. Since his appointment as Chairman of the Company, Mr. Liu has, among others, managed a series of strategic initiatives such as the merger of the Company with Shanghai Airlines and the restructure of the cargo assets. Mr. Liu also serves as Deputy Party Secretary and President of CEA Holding. Furthermore, the Company's senior management have implemented a number of important initiatives since 2014, including the formal establishment of foreign airlines service centre, completing the issuance of 1,327,406,822 A shares, and the execution of the Management Agreement with China Cargo Airlines and the Marketing Agreement with Air France-KLM. Please see "History and Development of the Company" for more details.

Strong brand recognition associated with top quality customer service

The Company believes that it is one of the most respected brands in China. It strives to provide its customers with a pleasant travel experience both on the ground and in the air through continual product and service improvements. The Company's continued investment in new aircraft and on-board products across its fleet demonstrates its commitment to customer service and further strengthens its brand and services. The Company has been selected as one of the BrandZ™ Top 30 Most Valuable Chinese Brands for the sixth consecutive year since 2010. In the first half of 2017, the Company was once again selected as one of the BrandZ™ Top 500 Most Valuable Global Brands. It also received the "Best China Airline" award at the "Travel Trade Gazette China Tourism Awards" for the third consecutive year. The Company believes that the quality of the service which it offers and the strength of its brand are critical to its continuing success and intends to continue focusing on developing its brand and improve its customer service.

STRATEGIES

In addition to pursuing the above competitive strengths, the Company's core strategies are to continue to:

- expand and optimise flight connectivity through the Company's Shanghai hub and code sharing arrangements with alliance partners;
- further promote the China Eastern Airlines brand as a premium brand in China;

- further promote value-added services to its passengers by leveraging on the SkyTeam brand;
- train and support its network of domestic sales agents and representatives;
- develop integrated product packages with strategic partners, such as the Shanghai Rail Bureau;
- develop high-end markets through selective targeting of group customers;
- further improve cost structure and enhance productivity; and
- further pursue industry best practices in operations and management.

THE COMPANY'S BUSINESS

Operations by Activity

The following table sets forth the Company's traffic revenues by activity for each of the two years ended 31 December 2015, 2016 and the six months ended 30 June 2017:

	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
	(Millions of RMB)		
Passenger	78,585	83,577	43,106
Cargo and mail	6,491	5,977	1,777
Total traffic revenues	85,076	89,544	44,883

Passenger Operations

The following table sets forth certain passenger operating statistics of the Company by route for each of the two years ended 31 December 2015, 2016 and the six months ended 30 June 2017:

	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
Passenger Traffic (in RPKs) (millions)	146,341	167,529	88,147
Domestic	98,304	106,361	56,164
Regional (Hong Kong, Macau and Taiwan)	4,189	4,347	2,295
International	43,848	56,821	29,688
Passenger Capacity (in ASKs) (millions)	181,792	206,249	108,404
Domestic	121,019	129,460	67,553
Regional (Hong Kong, Macau and Taiwan)	5,509	5,612	2,906
International	55,264	71,177	37,945
Passenger Yield (RMB)	0.56	0.52	0.51
Domestic	0.55	0.53	0.54
Regional (Hong Kong, Macau and Taiwan)	0.75	0.71	0.72
International	0.56	0.47	0.45
Passenger Load Factor (%)	80.50	81.23	81.31
Domestic	81.23	82.16	83.14
Regional (Hong Kong, Macau and Taiwan)	76.04	77.45	78.97
International	79.34	79.83	78.24

Route Network.

The primary focus of the Company's business is the provision of domestic, regional and international passenger airlines services. As at 30 June 2017, by connecting to the route networks of other SkyTeam member airlines, the Company's flights had access to 1,074 destinations in 177 countries.

In 2015, the Company entered into a strategic partnership with Delta Air Lines to further deepen their cooperation in terms of code-sharing, cabin-sharing and joint sales. By forming an industry-leading route network, both parties commenced code-sharing on 123 routes, including nine international major routes and 114 domestic routes in the PRC and the USA. Through offering joint sales to corporate customers, the Company believes that it will be better position to tap into the market for North American corporate customers. In the European market, the Company and Air France-KLM have commenced inter-airline transit services for flights departing from and arriving at Shanghai, Dalian, Paris and Nice. In the Australian market, the Company officially began joint operation with Qantas was officially commenced to start code-sharing on major routes such as Shanghai-Sydney and Shanghai- Melbourne routes, in order to tap their respective customer bases.

In 2016, the Company opened new routes to Prague, St. Petersburg, Amsterdam, Madrid, Chicago and Brisbane, and cancelled routes to Kathmandu from Shanghai Pudong via Kunming.

The Company's passenger revenue for domestic routes generated approximately 66.3 per cent. of its passenger revenues for the six months ended 30 June 2017. The Company's domestic routes cover all provincial capital cities in China and many other specifically-designated cities. The Company's domestic routes connecting Shanghai and other large commercial and business centres, such as Beijing, Guangzhou and Shenzhen, are always heavily travelled. In addition, the Company has set up subsidiaries in 15 provinces and cities including Shanghai, Beijing, Yunnan, Shaanxi, Jiangsu, Zhejiang, Anhui, Jiangxi, Shandong, Hubei, Shanxi, Gansu, Sichuan, Hebei and Guangdong as at 30 June 2017 to accommodate the huge market demand for air travel.

Fleet Structure

In 2015, the Company significantly optimized its fleet structure, and increased its fleet to 551 aircraft as at the end of 2015 while streamlining the variety of its aircraft models to 13 models by the end of 2015. In respect of passenger transportation, the Company capitalized on the opportunities arising from low international oil prices and robust demand for outbound tourism, and achieved impressive growth in passenger transportation by responding proactively to adverse factors such as geopolitical instability around the globe, terrorist attacks outside China, MERS cases in South Korea and impact on short-haul routes due to formation of a HSR network in 2015. The Company made efforts to build hubs and negotiate time slots in hub and core markets in order to promote better connectivity with the HSR network. In respect of freight transportation and logistics, the Company tightened its cost control, optimized production structure and broadened its marketing channels.

In 2016, the Company continued to update and optimize its fleet structure, introducing new aircraft continually and retiring outdated aircraft models. As at the end of 2016, the Company's average flight age was 5.4 years. The Company mainly introduces long-haul B777 Series aircraft in trans-Pacific routes; mid-to-long-haul A330 Series aircraft in China-Europe routes, China-Australia routes and domestic business routes; A320 Series and B737 Series aircraft in domestic and surrounding countries and regions routes, which the Company believes enhances the matching level between fleet models and routes, transportation capacities and relevant markets. Relying on the SkyTeam platform, the Company continued to enhance its cooperation with member airlines in the SkyTeam. In collaboration with Delta Air Lines, based on pre-existing trans-Pacific routes and destinations in the PRC and the USA, the Company further extended its network of cooperative routes to Canada, Mexico, Southeast Asian and South American regions, achieving a total of 252 code-sharing routes. In collaboration with Air France-KLM, based on their joint operation and code-sharing coverage, the Company increased its joint marketing efforts to corporate customers in the French market.

For the six months ended 30 June 2017, the Company introduced a total of 23 new model aircraft and a total of 12 aircraft were retired. The fleet structure has been made younger. As at 30 June 2017, the Company operated a fleet of 593 aircraft, which included 583 passenger aircraft and 10 business aircraft held under trust. As the Company completed the transfer of 100 per cent. equity interest in Eastern Logistics to Eastern Airlines Industry Investment, a wholly-owned subsidiary of the Company's controlling shareholder, CEA Holding, on 8 February 2017, the fleet of the Company ceased to include the nine freighters operated by China Cargo Airlines, a controlled subsidiary of Eastern Logistics.

Transportation Hubs

In 2015, the Company enhanced its Shanghai core hub and Xi'an and Kunming regional hubs, and established and extended its aviation transportation network in influential major markets such as Beijing, Nanjing and Qingdao to cover 1,057 destinations in 179 countries. The Company had added air traffic rights and time slot resources in hub markets and core markets, steadily improved the aircraft utilization rate and consolidated and expanded market share in the three largest hubs and core markets.

In 2016, the Company further strengthened its Shanghai core hub and Xi'an and Kunming regional hubs. The aggregated number of transits connecting "origin to destination" of the three hubs reached 6,075, an increase of 13.8 per cent. as compared to that of 2015, among which Pudong reached 4,083, an increase of 17.9 per cent. as compared to that of 2015, Kunming reached 1,384, an increase of 9.1 per cent. as compared to that of 2015, and Xi'an was 608 in both 2015 and 2016. The three hubs transported 4.51 million passengers, an increase of 27.0 per cent. as compared to 2015.

In 2016, the Company proactively promoted the establishment of transportation hubs with the opening of various international routes for long-haul flights and an enhanced coverage of its transportation network. As a result of enhanced transit connection and expanded transit routes structures, in 2016, the Company experienced approximately 26.8 per cent., 63.8 per cent. and 43.1 per cent., year-on-year growth in passenger flight capacity for the European, North American and Australian markets, respectively. The Company's inter-airline transit volume and revenue in 2016 grew by 24.2 per cent. and 21.4 per cent., respectively, as compared to 2015.

With Shanghai as its main hub and Xi'an and Kunming as its regional hubs, the Company believes that it 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 Company has steadily improved its flight system for its core hubs by introducing new flight destinations and increasing the frequency of certain flights, thereby enhancing its transfer and connection capability in these hub markets. According to the OAG Schedules of 30 June 2017, the market share of the Company in terms of passenger turnover in the first half of 2017 was approximately 17.8% in Beijing (including Capital International Airport and Nanyuan Airport), 40.4% in Shanghai (including Hongqiao Airport and Pudong Airport), 28.4% in Xi'an and 36.3% in Kunming. In 2017, the Company will actively capture key market resources and continue to carry out the establishment and management optimization of transportation hubs in Shanghai, Kunming and Xi'an.

Cargo and Mail Operations

The following table sets forth certain cargo and mail operating statistics of the Company by geography for each of the two years ended 31 December 2015, 2016 and the six months ended 30 June 2017:

	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
Cargo and Mail Traffic (in RFTKs) (millions)	4,865	4,875	1,366
Domestic	948	964	428
Regional (Hong Kong, Macau and Taiwan)	126	126	24
International	3,791	3,786	915
Cargo and Mail Capacity (in AFTKs) (millions)	8,842	9,440	3,580
Domestic	2,337	2,221	1,148
Regional (Hong Kong, Macau and Taiwan)	281	270	100
International	6,224	6,949	2,332
Cargo and Mail Yield (RMB)(including fuel surcharge)	1.33	1.25	1.31
Domestic	1.09	1.07	1.10
Regional (Hong Kong, Macau and Taiwan)	3.01	2.98	3.33
International	1.34	1.24	1.35
Cargo and Mail Load Factor (%)	55.02	51.64	38.17
Domestic	40.57	43.39	37.26
Regional (Hong Kong, Macau and Taiwan)	44.82	46.51	24.37
International	60.91	54.48	39.21

The Company is required to obtain from the CAAC the right to carry passengers or cargo on any domestic or international route. The Company's cargo and mail business generally utilises the same route network used by its passenger airline business. The Company carries cargo and mail on its freight aircraft as well as in available cargo space on its passenger aircraft. The Company's most significant cargo and mail routes are international routes.

In 2015, the Company optimized its route network in the Shanghai hub by reducing the number of intermediate points and improve operating efficiency, thus increasing the daily utilization rate of freighters for the whole year by more than 8 per cent. as compared to 2014. The layout of flight capacities was adjusted based on market demand to stabilize flight capacities for the core markets in Europe and America. Efforts have also been made to broaden sourcing channels and strengthen cooperation. As such, the air-freight transit volume increased by nearly 10 per cent. as compared to 2014. Also, by proactively expanding cooperation with cross-border e-commerce partners, the first chartered aircraft for directly imported goods purchased via cross-border e-commerce in the PRC came into service, increasing the annual revenue from cross-border logistics by approximately 32 per cent. as compared to 2014.

Prior to 2016, China Cargo Airlines, a subsidiary of Eastern Logistics, suffered cumulative losses from 2011 to 2015. In order to further improve the Company's operational performance, focus relevant

resources on its air passenger transportation business, collect receivables and lower capital risks, the Company disposed of its 100 per cent. equity interest in Eastern Logistics to Eastern Airlines Industry Investment on 8 February 2017.

The following table sets forth certain operating statistics of the Company for each of the two year ended 31 December 2015 and 2016 and the six months ended 30 June 2017:

	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
Capacity (in ATK) (millions)	25,203	28,002	13,336
Capacity (in ASK) (millions)	181,793	206,249	108,404
Capacity (in AFTK) (millions)	8,842	9,440	3,580
RTKs (millions)	17,820	19,713	9,178
RPKs (millions)	146,342	167,529	88,147
RFTKs (millions)	4,865	4,875	1,366
Number of passengers transported (thousands)	93,780	101,742	53,321
Cargo transported (million kilograms)	1,399	1,395	462
Load Factor	70.7%	70.4%	68.8%

Operations by Geographical Area

The Company's revenues by geographical area are analysed based on the following criteria:

- Traffic revenue from services within the PRC (excluding Hong Kong, Macau and Taiwan, collectively, "Regional") is classified as domestic operations. Traffic revenue from inbound and outbound services between the PRC, regional or overseas markets is attributed to the areas based on the origin and destination of each flight area.
- 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 the Company's revenues by geographical area for each of the two years ended 31 December 2015, 2016 and the six months ended 30 June 2017, after reclassification of business tax and expected sales in advance of carriage:

	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
(millions of RMB)			
Domestic	61,222	63,730	32,142
Regional (Hong Kong, Macau and Taiwan)	3,569	3,516	1,753
International	29,178	31,658	14,528
Total	<u>93,969</u>	<u>98,904</u>	<u>48,423</u>

COMPETITION

Domestic

The Company competes against its domestic competitors primarily on the basis of safety, quality of service and frequency of scheduled flights. With the combination of the Company's dominant position in Shanghai, its route network and its continued commitment to safety and service quality, the Company believes that it is well-positioned to compete against its domestic competitors in the growing airline industry in China. However, domestic competition from other Chinese airlines has been increasing recently as the Company's competitors have increased capacity and expanded operations by acquiring other airlines and adding new routes or additional flights to existing routes. In addition, the Company has faced intense competition from new entrants to its domestic markets as new investments in China's civil aviation industry have been 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 domestic aviation industry, one of which provides that no new Chinese airlines will be licensed to incorporate and operate aviation businesses before 2010. In October 2010, the CAAC announced that the suspension of approvals for new Chinese airline companies would continue for an indefinite period. However, if the restriction is lifted in the future, the Company expects that competition from other Chinese airlines on its routes will further intensify.

As at 30 June 2017, there were over 50 Chinese airlines in mainland China, and the Company competes with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. The Company, Air China, which is based in Beijing and listed on the Hong Kong Stock Exchange and the London Stock Exchange, and 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-kilometres and size of operations.

Each of the domestic airlines competes against other airlines operating the same routes or flying indirect routes to the same destinations. The Company's principal competitors in the domestic market are China Southern and Air China, which also provide transportation services on some of its routes, principally routes originating from the major air transportation hubs in China, such as Shanghai, Guangzhou and Beijing. Some of these routes are among the Company's most heavily travelled routes. Since most of the major domestic airlines operate routes from their respective hubs to Shanghai, the Company also competes against virtually all of the major domestic airlines on these routes. In addition, the Company is facing increasing competition from certain low-cost carriers, such as Spring Airlines, in the domestic market. Spring Airlines competes with the Company, as it operates daily domestic routes to certain destinations such as Harbin, Shenyang, Guangzhou, Xiamen, Sanya, Kunming and Chongqing, which are covered in the Company's domestic routes. The "Twelfth Five-Year Plan" for civil aviation industry in China encourages low-cost airlines to enter into major logistics market gradually. In February 2014, CAAC issued Guidance on Facilitating Low-cost Aviation Development which aims at supporting the development of domestic low-cost airlines. This plan will further intensify the competition in the domestic aviation market. However, the Company believes it is well-positioned to compete against domestic low-cost carriers due to its expansive route network, competitive pricing, greater availability of flight services to these destinations and strong brand name.

The Company also faced competition from other domestic carriers in its air cargo business. In 2016, due to factors including the slowdown in the growth rate of the total world trade volume and fierce market competition, the air cargo transportation industry continue to underperform as compared to the air passenger transportation business. Prior to 2016, China Cargo Airlines, a subsidiary of Eastern Logistics, suffered cumulative losses from 2011 to 2015. In order to further improve the Company's operational performance, focus relevant resources on its air passenger transportation

business, collect receivables and lower capital risks, the Company disposed of its 100 per cent. equity interest in Eastern Logistics to Eastern Airlines Industry Investment on 8 February 2017.

Domestic Rail

The PRC government is aggressively implementing the expansion of its domestic HSR network, which has provided train services at a speed of up to 350km per hour connecting major cities such as Beijing, Shanghai, Guangzhou and Hong Kong. The expansion of the coverage of this network, improvements in railway service quality and increased passenger capacity and stations located closer to urban centres than competing airports could enhance the relative competitiveness of the railway service and affect the Company's market share on some of its key routes, in particular its routes of between 500km to 800km. The HSR connecting Beijing and Shanghai commenced operations in July 2011, and has substantially affected the Company's Beijing and Shanghai routes, as well as routes between Shanghai and Jinan, Beijing and Nanjing, Shanghai and Xuzhou, Shanghai and Tianjin and Beijing and Changzhou.

The Company inevitably faces increasing competition and pricing pressures from this railway service. Therefore, the Company has been taking active measures in decreasing the number of short-haul routes that overlap with such high-speed train routes, as well as adjusting certain airfare prices on affected routes, facilitating "air-to-railway" transfers and allocating flight resources to alternative routes or medium-to-long-haul routes that have higher profitability, higher demand and less competition. In addition, in 2013, the Company developed ground connection services such as Air-Rail Service and Air-Bus Service and cooperated with Disney, brand hotel groups, and renowned international travel enterprises to develop travel products. In 2017, the Company expects to continue exploring cooperation opportunities with domestic railway authorities in order to gain access to the customer base of railway services, whilst maintaining and strengthening its other competitive advantages, which include providing high quality services, increasing its pre-sale product promotions and developing its transfer services.

Regional

The Company's Hong Kong routes are highly competitive. The primary competitors on the Company's Hong Kong routes are Cathay Pacific Airways ("**Cathay**"), and Hong Kong Dragon Airlines Limited ("**Dragonair**"). The Company currently operates approximately 22 flight routes between Chinese cities and Hong Kong. Cathay and Dragonair compete with the Company on several of these routes, particularly the Shanghai-Hong Kong route. The Company also faces competition from Spring Airlines on its Shanghai-Hong Kong, Hangzhou-Hong Kong, Nanjing-Hong Kong and Shanghai-Macau routes. The Air Transportation Arrangement signed between the PRC government and the administrative government of Hong Kong in February 2000 provides for equal opportunity for airlines based in Hong Kong and mainland China. As a result, Dragonair has increased the frequency of its flights on several of the Company's Hong Kong routes, resulting in intensified competition. The Company also faces competition from Dragonair in its Hong Kong cargo operations. Cathay, which owns Dragonair, also cooperates with Air China and operates all passenger services of Cathay and Air China between Hong Kong and mainland China as joint venture routes under code-sharing and revenue and cost-pooling arrangements. This may further intensify the competition on the routes between Hong Kong and mainland China and impose greater competitive pressure on the other airline companies operating on these routes.

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, the Company's 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 15 December 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, 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. At the end of 2011, the two sides agreed to increase the total number of flights to 616 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. In April 2015, the fifth batch of Mainland pilot cities was opened for individual tours to Taiwan, including Haikou, Hohhot, Lanzhou, Yinchuan, Changzhou, Zhoushan, Huizhou, Weihai, Longyan, Guilin and Xuzhou, and the number of Mainland cities with free line tours to Taiwan has reached 47.

The two sides also previously 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. In the past, a substantial number of the Company's passengers travelled on its 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, the Company may experience a significant decline in passenger traffic volumes on its Hong Kong routes and, as such, its revenues derived from operating such routes could be materially and adversely affected. For the six months ended 30 June 2017, the Company operated flights to Taipei from Shanghai, Nanjing, Xi'an, Kunming, Wuhan, Hefei, Nanchang, Ningbo, Taiyuan, Qingdao, Wuxi, Yancheng, Yinchuan and Lijiang. In addition, the Company signed a strategic framework agreement in April 2010 with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan. According to the Tenth Meeting of Cross-strait Air Transportation in 2015, the two sides added Changzhou and Shaoshan as two new air link cities between the PRC and Taiwan. The Company also established the Changzhou-Taipei route with two direct flights per week. In November 2015, the Company opened a new route, i.e. Huai'an-Taipei route. As the market is expanding for individual tourist, the Company aims to target its sales to these customers.

The Company believes that it will benefit from expanding its market share in Taiwan-mainland China direct flight services as Taiwan and mainland China continues to cooperate on expanding travel between them. However, as one of the several airlines offering Taiwan-mainland China direct flight services, the Company cannot assure you that it will maintain 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 the Company's revenues derived from operating its Hong Kong and Taiwan routes.

The Company also competes with Air Macau on the Shanghai Pudong-Macau route. Air Macau's routes also provide an alternative to the Company's Hong Kong routes for passengers travelling between Taiwan and mainland China.

International

The Company competes with Air China, China Southern and many other well-established foreign carriers on its international routes. Most of its international competitors are very well-known international carriers and are substantially larger than the Company is and have substantially greater financial resources than the Company does. Many of its international competitors also have significantly longer operating histories and greater name recognition than the Company has. Some international passengers, who may perceive these airlines to be safer and provide better service than Chinese airlines in general, may prefer to travel on these airlines. In addition, many of the Company's

international competitors have more extensive sales networks and utilise more developed reservation systems than the Company's, or engage in promotional activities, such as frequent flyer programmes, that may be more popular than the Company's and effectively enhance their ability to attract international passengers.

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. The Company primarily competes with Air China, All Nippon Airways, Japan Airlines, and Spring Airlines on its passenger routes to Japan. On its Korean routes, the Company competes with China Southern, Air China and Asiana Airlines and Korean Air. The Company's principal competitors on its flights to Southeast Asia include Thai Airways International, Singapore Airlines, Malaysia Airlines, Air Asia and Vietnam Airlines. On its passenger flights to the United States, the Company's principal competitors include Delta Air Lines, United Airlines, American Airlines, Air China and Air Canada. On its European routes, the Company's competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways, Lufthansa German Airlines and Alitalia. The Company competes with Air China, China Southern and Qantas on its Australian routes. The Company competes in the international market on the basis of price, service quality, frequency of scheduled flights and convenient sales arrangements.

To improve its competitive position in international markets, the Company has established additional dedicated overseas sales offices, launched its own frequent flyer programme, participated in "Asia Miles", a popular frequent flyer programme in Asia, and entered into code-sharing arrangements with a number of foreign airlines. The Company has also improved its online reservation and payment system. In addition, in June 2011, the Company joined SkyTeam, an international airlines alliance and frequent flyer mileage programme that includes, among others, international carriers such as Delta Air Lines, China Southern, Alitalia, Air France-KLM. As a member of SkyTeam, the Company's Elite members can enjoy approximately 516 lounges worldwide. In 2013, the Company implemented code-sharing programmes covering 242 routes with 11 SkyTeam member airlines. Please see "Marketing and Sales – SkyTeam Alliance" for more details. In 2013, the Company also started code-sharing cooperation with seven non-SkyTeam member airlines, covering more than 150 routes, including Japan Airlines and Qantas. In 2015, in response to industry competition, the Company obtained additional air traffic rights and time slot resources in hub markets and core markets, steadily improved the aircraft utilisation rate and consolidated and expanded its market share in the three largest hubs and core markets. Leveraging on the SkyTeam platform, the Company enhanced its strategic cooperation with Delta Air Lines and cooperated with Air France-KLM and Qantas to develop a highly efficient and convenient flight network, which covers all of China and connects to the whole world. In 2016, the Company proactively promoted the establishment of transportation hubs with the opening of various international routes for long-haul flights and an enhanced coverage of its transportation network. With Shanghai as the core hub, the Company added six international routes for long-haul flights to its network, connecting Shanghai with Prague, Amsterdam, Madrid, St. Petersburg, Chicago and Brisbane. The Company provided more frequent flight services on routes connecting Shanghai with New York City, Los Angeles, Sydney and Melbourne. The Company added routes connecting Kunming with Sydney, Qingdao and San Francisco, Nanjing and Vancouver and Hangzhou and Sydney. Lastly, the Company stabilised the allocation of its flight capacities for Japan, Korea and Southeast Asia markets. As a result of these enhanced transit connection and expanded transit routes structures, in 2016, the Company experienced approximately 26.8 per cent., 63.8 per cent. and 43.1 per cent. year-on-year growth in passenger flight capacity for Europe, North America and Australia markets, respectively; and its inter-airline transit volume and revenue grew by 24.2 per cent. and 21.4 per cent., respectively. As at 30 June 2017, by connecting to the route networks of other SkyTeam member airlines, its flights had access to 1,074 destinations in 177 countries.

In 2017, the Company continued to deepen its strategic partnership with Delta Air Lines and Air France-KLM. The Company and Delta Air Lines further enhanced their transportation networks connecting China and the USA through code-sharing cooperation in 166 domestic routes in China and the USA. In addition, the Company and Air France-KLM have entered into a marketing agreement pursuant which the parties will strive to expand the China-Europe transportation network, thus providing passengers with more convenient, smoother travel options. Lastly, an overseas wholly-owned subsidiary of CEA Holding, together with Delta Air Lines, has acquired 10 per cent. equity interest in Air France-KLM's share capital, respectively, thereby forming an even closer long-term partnership among the Company, Delta Air Lines and Air France-KLM.

Capitalising on the cooperation platform of the SkyTeam, the Company has newly launched code-sharing cooperation with Air Europa Líneas Aéreas, S.A.U. from Spain and Czech Airlines. As at 30 June 2017, the Company had launched code-sharing cooperation for 709 routes with 14 SkyTeam members, and launched single check-in for transit passengers in 23 transit stations with 9 SkyTeam members. Meanwhile, the Company also continued to strengthen its cooperation with airlines which are not members of the SkyTeam. Due to its increasingly enhanced cooperation with Qantas in joint sales and ground services, and focusing around 69 routes, the Company and Qantas opened up their respective VIP lounges in the PRC and Australia to each other. Through cooperating with British Airways, Royal Brunei Airlines and China Express Airlines in code sharing, the Company optimised its transit connection at London Heathrow Airport and enhanced the level of coverage of its route network in Southeast Asia.

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. The Company's 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. The Company has a good safety record and regards the safety of its flights as one of the most important components of its operations.

Maintenance Capability

Through the Company's cooperation with service providers and ventures with other companies, the Company performs regular repair and maintenance checks on all of its aircraft, which include D1 checks, C checks and other maintenance services for certain aircraft and other flight equipment. The Company also performs certain maintenance services for other Chinese airlines. The Company's primary aircraft maintenance base is at Hongqiao International Airport in Shanghai. In 2011, the Company commenced use of a newly constructed wide-body aviation hangar at Hongqiao International Airport, which can accommodate the maintenance of two of its wide-body aircraft and one narrow-body aircraft. The Company has additional maintenance bases at Shanghai Pudong International Airport and some of its provincial hubs. The Company's maintenance staff in Shanghai supervises the operation of its regional maintenance facilities. The Company employed approximately 11,621 workers as maintenance and engineering personnel as at 31 December 2016. Some of its aircraft maintenance personnel have participated in the manufacturer training and support programmes sponsored by Airbus and Boeing. In order to enhance its maintenance capabilities and to reduce its maintenance costs, the Company has, 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. The

Company's avionics equipment is primarily maintained and repaired at its electronic maintenance equipment centre located in Shanghai.

In 2015, Eastern Technology engaged in aircraft maintenance business, raised its standards for aircraft maintenance and construction management to facilitate the Company's centralised control over aircraft maintenance, and focused on high-end premium operations, such as sharing aviation equipment and providing maintenance services for aircraft for Chinese routes operated by international airlines. In 2016, other airlines such as Singapore Airlines, AirAsia and Royal Brunei Airlines became customers of Eastern Technology, whose area of operation expanded to locations including Xi'an, Jinan, Wuhan and Wuxi.

The Company has entered into a joint venture with Honeywell International Inc. ("**Honeywell**"), formerly Allied Signal Inc., in Shanghai for the purpose of performing maintenance and repairs on aircraft wheel assemblies and brakes. Since October 1997, the Company has operated a maintenance hangar at Hongqiao International Airport which has the capacity to house two wide-body aircraft. The Company and Rockwell Collins International Inc. of the United States have also co-established Collins Aviation Maintenance Service Shanghai Limited, which is primarily engaged in the provision of repair and maintenance services for avionics and aircraft in-flight entertainment facilities in China. As at the date of this Offering Circular, The Company and Rockwell Collins International Inc. hold 35 per cent. and 65 per cent., respectively, of the equity interests in the joint venture. Moreover, in November 2002, the Company, jointly with Aircraft Engineering Investment Limited, established Shanghai Eastern Aircraft Maintenance Limited, in which the Company holds 60 per cent. of the equity interests, as at the date of this Offering Circular, to provide supplemental avionics and other maintenance services to the Company. STA, which was established in 2004 by the Company and Singapore Technologies Aerospace Ltd. under a joint venture agreement dated 10 March 2003, also provides the Company with aircraft maintenance, repair and overhaul services. The Company entered into repair agreements for seven types of electronics materials with Honeywell and the Company expects to save US\$338,000 of material repairing costs in 2017 and 2018.

Safety

The provision of safe and reliable air services for all of the Company's customers is one of its primary operational objectives. The Company implements uniform safety standards and safety-related training programmes in all operations. The Company's flight safety management division monitors and supervises the Company's flight safety. The Company has had a flight safety committee since the commencement of its business, comprised of members of its senior management, to formulate policies and implement routine safety checks at its Shanghai headquarters and all provincial hubs. The flight safety committee meets monthly to review the Company's overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. The Company has also implemented an employee incentive programme, using a system of monetary rewards and discipline, to encourage compliance with the CAAC safety standards and its safety procedures. The Company periodically evaluates the skills, experience and safety records of its pilots in order to maintain strict control over the quality of its pilot crews. In 2011, the Company was awarded the "Flight Safety Five-star Award" by CAAC for its commitment to aviation and operations safety. The Company places great emphasis on ensuring aircraft safety operations. In 2015, the Company established an integrated management and control model by incorporating regional management, safety audit and safety supervision, and established the Management of Risk Control System ("**MORCS**") to enhance safety risk prevention on an ongoing basis. Also in September 2015, the Company was granted the "Safe Flight Diamond Award", the highest accolade for flight safety in the industry, by the CAAC.

The Company has issued work implementation plans that provided specific measures to address risks such as lightning strikes, hard aircraft landings and communication systems failures. In addition, the Company established the Nantong Airport training base to provide additional training programmes for its flight crews. Furthermore, the Company formulated the “Assessment and Remuneration Packages of Star-rating flight Crew Members”, which commenced star-rating assessment of all flight crew members in terms of flight safety, flight quality, discipline and provision of services.

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

The Company continued to strengthen its SMS. To do so, the Company has organised training for the administrators responsible for safety management of all operating units to enhance their understanding for the construction of SMS and laying the groundwork for SMS. The Company has also commenced the construction of the analytical network. The Company had a number of internal cooperation meetings, discussing the master framework, which carries the system. The Company also introduced the concept of safety indicators for operational progress, rendering safety management more comprehensible and continuously improved the risks database of the relevant routes and airports, strengthening the application of the different databases on the actual process of operation.

In 2017, the Company continued to facilitate the construction and application of the SMS and strictly implemented a risk management system. The Company put greater efforts in safety inspection and supervision as well as fulfilment of responsibilities in relation to safety enhancement. The Company enhanced its flight training management and commenced specialised training covering pilots’ management and transition to B777-300ER aircraft to reinforce the foundations of flight safety. The Company has also established a research institute for flight safety technology application to provide intellectual support for its ongoing safe operations.

Cyber-security

With respect to its internal policies on cyber-security and internet safety, the Company has established an information safety management system and issued internal regulations on cyber-security, internal hardware and data safety systems to prevent loss of information due to cyber-security incidents, network outages or hardware incidents. In 2015, the Company established a routine inspection system and a contingency mechanism for its reporting of external security breach of its website. The data loss prevention (DLP) project was implemented and the Company’s information security management system passed the ISO27000 certification. In 2016, the Company further improved its cyber-security by implementing security code review and security protection around the boundaries of its internet and data centre, optimised the multi-dimensional security protection system and elevated the overall security protection level on its information system.

In 2017, focusing on the “three centres in two locations” plan, the Company began construction of its Xi’an data centre and disaster backup facility, in order to construct a global-based security and servicing system. The Company implemented security protection around the boundaries of the internet and the data centre and optimised the multi-dimensional security protection system, which effectively defended against the WANNACRY ransomware virus. The Company also conducted information system emergency response training and security code review through the code quality analytics platform, which systematically elevated the overall security protection level on the Company’s information system.

As at the date of this Offering Circular, the Company did not experience any material cyber-security incidents or related losses, nor did the Company purchase any insurance for such incidents.

In the future, the Company also plans to implement measures relating to office environment information safety management, information system emergency management, information exchange tool management and information system access control, protection against malicious software and internal review and audit of information safety risks. Furthermore, the Company has entered into a strategic cooperation plan with the China Information Technology Security Evaluation Centre by which their trained engineers evaluate the Company's internal data security policies and cyber-security measures.

FUEL SUPPLIES

One of the Company's main operating expenses is aircraft fuel costs. The Company purchases a significant portion of the aviation fuel for its domestic routes from regional branches of the CAOSC. Fuel costs in China are affected by costs at domestic refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China. Fuel prices at six designated major airports in China, namely, the airports in Shanghai Pudong, Shanghai Hongqiao, Beijing, Guangzhou, Shenzhen and Tianjin, are set and adjusted once a month by the CAAC in accordance with prevailing fuel prices on the international market. For its international routes, the Company purchases a portion of its aviation fuel from foreign fuel suppliers located at the destinations of these routes, generally at international market prices.

In 2015, the Company's total aircraft fuel cost was RMB20,312 million, representing a decrease of 32.8 per cent. from RMB30,238 million in 2014, as a result of the decrease in the average fuel price. In 2015, the average price of fuel decreased by 39.9 per cent. compared to that of 2014.

In 2016, the Company's total aircraft fuel cost was RMB19,626 million, representing a decrease of 3.4 per cent. from RMB20,312 million in 2015. This decrease was primarily due to a decrease in average fuel price by 13.6 per cent. as compared with 2015, partially offset by an increase in the Company's volume of refuelling by 11.9 per cent. as compared with 2015.

For the six months ended 30 June 2017, the Company's total aircraft fuel cost was RMB12,139 million, representing an increase of 45.2 per cent. from the same period of 2016, mainly due to a year-on-year increase in the volume of refuelling of 5.1 per cent. for the Company, leading to an increase in aircraft fuel costs of RMB423 million. During this period, the average price of fuel increased by 38.2 per cent. and the aircraft fuel costs increased by RMB3,353 million.

The Company cannot provide assurance that fuel prices will not fluctuate in the future. Further, due to the highly competitive nature of the airline industry and government regulation on airfare pricing, the Company may be unable to fully or effectively pass on to its customers any increases in fuel costs in the future. However, the Company intends to continue to enhance its jet fuel procurement policies and developing additional internal cost-control measures, which include streamlining the number of aircraft models in its fleet and optimising route structures, which the Company believes will enable it to control its fuel costs.

GROUND FACILITIES AND SERVICES

The centre of the Company's operations is Shanghai, one of China's principal air transportation hubs. The Company's Shanghai operations are based at Hongqiao International Airport and Pudong International Airport. As at 31 December 2016, the Company also has operated from various other

airports in China, including Yaoqiang Airport in Jinan, Lukou Airport in Nanjing, Liuting Airport in Qingdao, Luogang Airport in Hefei, Changbei Airport in Nanchang, Wushu Airport in Taiyuan, Zhengding Airport in Shijiazhuang, Lishe Airport in Ningbo, Tianhe Airport in Wuhan, Wujiaaba Airport in Kunming and Xianyang Airport in Xi'an. The Company owns hangars, aircraft parking and other airport service facilities at these airports, and also provides ground services in these locations. The Company leases from CEA Holding certain buildings at Hongqiao International Airport where its principal executive offices are located.

The Company has its own ground services and other operational services, such as aircraft cleaning and refuelling and the handling of passengers and cargo for its operations at Hongqiao International Airport and Pudong International Airport. The Company also provides ground services for many other airlines operating to and from Hongqiao International Airport and Pudong International Airport.

In-flight meals and other catering services for the Company's Shanghai-originated flights are provided primarily by Shanghai Eastern Air Catering Limited Liability Company, a joint venture company affiliated with CEA Holding. The Company generally contracts with local catering companies for flights originating from other airports.

The Company incurs certain airport usage fees and other charges for services performed by the airports from which the Company operates 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

The Company's marketing strategy with respect to passenger operations is primarily aimed at increasing its market share for all categories of air travellers. With respect to its Hong Kong and international routes, the Company is permitted to market its services on the basis of price. The Company has limited flexibility in setting its airfares for domestic routes and adjusting its domestic airfares in response to market demand. As part of its overall marketing strategy, the Company emphasises its commitment to safety and service quality, which the Company believes are critical components of its ability to compete successfully.

The Company has also adopted customised strategies to market its services to particular travellers. The Company seeks to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travellers, the Company focuses on the frequency of flights between major business centres, the convenience of transit services and geographical coverage of its sales network. The Company launched its initial frequent flyer programme in 1998 and joined the "Asia Miles" frequent flyer programme in April 2001 to attract and retain travellers. In August 2003, the Company upgraded and rebranded its frequent flyer programme 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, restaurants and other service providers that are the Company's strategic partners. In 2004, the Company established its special services hotline "95530" call centre. As a result of the Company's continual efforts to develop the "Eastern Miles" programme, the number of members of the frequent flyer programme reached over 31.5 million as at 30 June 2017, increased by 14.8 per cent. compared to 31 December 2016. In light of the expansion of the national HSR network, the

Company has cooperated with the Shanghai Railway Bureau to launch the “Air-Rail Pass Transportation” products. The Company’s domestic and international flights together with its HSR products at Shanghai Hongqiao International Airport and Shanghai Pudong International Airport Co., Ltd., have formed an air-rail two-way transportation product, which has helped the Company to broaden its customer resources. In addition, in terms of customer resources, the Company has actively explored and expanded its customer base of high-end business travellers to accelerate the development of group clients. Lastly, the Company has fully promoted the expansion of Eastern Miles membership. In order to attract more members and to provide members with better experience in terms of diversity, comprehensiveness and flexibility, the Company has strengthened its cooperation with retail store owners by increasing the number of cooperative stores covering various industries such as financial services, hotel, car rental and health services.

In 2015, Eastern E-Commerce, a wholly-owned subsidiary of the Company, was established to focus on five major business segments, including operation of e-commerce platform, non-aviation points for frequent travellers, points mall and online floating market, digital marketing and integrated non-aviation products to explore transformative resources, such as customers points and offline contact points. As part of the Company’s research and development plans to develop 32 types of integrated products in ten categories, the Company launched seven types of travel-related services, such as pick-up services, valet parking and tourism services in 2015. The Company frequently updates its e-commerce platforms, namely its mobile application sales terminal and official website, to continuously bring in new service functions and improve customer experience.

In 2016, Eastern E-Commerce established an e-commerce platform by integrating the Company’s online and offline platforms. Ticket returns, rebooking and upgrades via multiple channels, such as the Company’s official website, mobile application and member website, were launched with success, and a total of 12 updates has been made to its mobile application. In addition, the Company actively developed cooperative opportunities in the area of non-aviation points and attracted 133 malls and 89 cooperative partners to participate in the sales of non-aviation points, thereby enriched the applications of aviation points and the variety of integrated products offered. As a result, in 2016, the Company recorded 106 per cent. and 505 per cent. year-on-year growth in its revenues from the sales of mileage points and integrated products, respectively.

In 2017, the Company continued to build on its e-commerce platform, under which internet access has become available in 67 long-haul wide-body aircraft, ranked at the top nationwide in terms of scale. The updates and replacements of mobile application, accelerated by introducing multiple new functions such as online pre-flight ordering of in-flight meals, self check-in and irregular flight enquiry, optimised the price enquiry and ticket return application modules on the Company’s official website. The Company also further developed aviation contact resources and enriched the applications of aviation points and the variety of integrated products. For the six months ended 30 June 2017, the Company recorded a significant increase of nearly 200 per cent. in its revenue from the sales of aviation points and integrated products, respectively, as compared to the same period last year.

The Company’s advertising, marketing and other promotional activities include the use of radio, television and print advertisements. The Company plans to continue to use advertising and promotional campaigns to increase sales on new routes and competitive routes.

Ticket Booking Systems

In 2002 and again in 2012, the Company upgraded its online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. In 2012, the Company also expedited the construction of nine overseas websites in a variety of languages. As at 30 June 2017, the Company’s

global website covers North America, Australia, Europe and Asia Pacific. The Company continues to encourage its customers to book and purchase tickets via the Internet by initiating various promotional campaigns and upgrading and expanding the services offered by its online sales system. In 2016, the Company introduced the English version of “China Eastern Mobile E” to its customers. In addition, the Company introduced “M Website”, a website portal that provides mobile flight booking, flight status and online checking services, and applied several third-party payment platforms to its ticket booking system.

The Company also increased the success rate of website payment. As at 30 June 2017, work regarding the international unified payment channel achieved a success rate of 85.93 per cent. and is still being optimised.

In addition, the Company updated the ability for sale activities and self-service. As at the date of this Offering Circular, sale activities via the CEA official website and the mobile platforms (except limited time special discount during weekend nights) amounted to an accumulated amount of RMB799.11 million, which accounted for 31.02 per cent. of the total sale via website. As at 30 June 2017, mobile and web check-in had been implemented to support up to 195 cities domestically and abroad, covering most of the Company’s navigation points.

The Company also maintains an extensive domestic network of sales agents and representatives in order to assist customers and promote in-person ticket sales. The majority of the Company’s airline tickets are sold by domestic and international sales agents who have contractual relationships with it. As at 31 December 2016, the Company’s direct domestic ticket sales are handled primarily through employees based at its ticket counters located in airports such as Hongqiao International Airport and Pudong International Airport in Shanghai and in Anhui, Zhejiang, Shandong and Yunnan provinces, as well as in airports in Beijing, Chengdu, Fuzhou, Guangzhou, Hangzhou, Shenzhen, Xiamen and Yantai. Direct sales are also promoted through the availability of the Company’s telephone reservation and confirmation services. In addition to its domestic sales agents located in various cities in mainland China, Hong Kong, Macau and Taiwan, the Company maintained more than 50 overseas sales or representative offices worldwide as at 31 December 2016, including: (i) North American locations such as Honolulu, Los Angeles, New York, San Francisco and Vancouver; (ii) European and Middle Eastern locations such as Frankfurt, Hamburg, London, Moscow, Paris, Rome, Madrid, Brussels and Munich; (iii) Asia-Pacific locations such as Seoul, Tokyo, Osaka, Nagoya, Fukuoka, Hiroshima, Sapporo, Niigata, Fukushima, Okinawa, Shizuoka, Kanazawa, Toyama, Nagasaki, Kagoshima, Okayama, Matsuyama, Singapore, Bangkok, Phuket, New Delhi, Kolkata, Kuala Lumpur, Ho Chi Minh, Bali, Dubai, Dhaka, Phnom Penh, Siem Reap, Vientiane, Yangon, Mandalay, Kathmandu and Maldives; and (iv) Australian locations such as Melbourne and Sydney.

As at 1 June 2008, the Company stopped issuing paper tickets for air travel in accordance with a mandate from the IATA. The IATA represents approximately 240 airlines and comprises approximately 84 per cent. of scheduled international air traffic. As a result, the Company now issues electronic itineraries and receipts as well as electronic tickets to its passengers. The Company believes the transition to 100 per cent. 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 the Company’s direct passenger ticket sales are recorded on its computer systems. Most Chinese airlines, including the Company, are required to use the passenger reservation service system provided by the CAAC’s computer information management centre, which is linked with the computer systems of major Chinese commercial airlines. The Company has 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 the Company's international flights.

SkyTeam Alliance

The Company officially joined SkyTeam, an international airlines alliance and frequent flyer mileage programme that includes international carriers such as, among others, Delta Air Lines, China Southern, Alitalia, Air France-KLM, on 21 June 2011. As at the end of 2015, the Company has entered into frequent flyer and airport lounges agreements with 20 SkyTeam member airlines and implemented code-sharing programmes 670 routes with SkyTeam member airlines, as well as 336 routes with non-SkyTeam member airlines, which has further broadened the coverage of the Company's route network. As at the end of 2016, the Company implemented code-sharing programmes with 12 SkyTeam member airlines and the number of code-sharing routes with non-SkyTeam member airlines increased by 52 per cent. as compared to 2015. The Company also cooperated with nine SkyTeam member airlines including Delta Air Lines, Air France-KLM, China Southern, Alitalia, Garuda Indonesia and Iberia in joint check-ins for 21 transit points.

Capitalised on the cooperation platform of the SkyTeam, the Company has newly launched Code-sharing cooperation with Air Europa Líneas Aéreas, S.A.U. from Spain and Czech Airlines a.s. For the six months ended 30 June 2017, the Company commenced to launch code-sharing cooperation for 709 routes with 14 SkyTeam members, and launched single check-in for transit passengers in 23 transit stations with nine SkyTeam members.

By connecting to the route networks of other SkyTeam member airlines, the Company is able to offer its passengers seamless transit to 1,074 destinations in 177 countries under a single plane ticket with direct luggage services as at 30 June 2017. Passengers may also enjoy the comfort of approximately 672 VIP airport lounges of SkyTeam around the world. The Company believes this will be another benefit for its passengers, as they will be afforded additional flight options and frequent flyer mileage benefits through the Company's SkyTeam partners. In addition, the Company will benefit from possible code-sharing, cooperative flight options, reduced costs and increased alliance-related marketing and promotion overseas.

Cargo Operations and Logistic Services

The Company maintains a network of cargo sales agents domestically and internationally. The Company and its cooperative partners in its cargo operations have established domestic cargo sales offices in Beijing, Shanghai, Xiamen and other major transportation hubs in China, and international cargo sales offices in various locations in the U.S., Europe and the Asia-Pacific Region. In 2005, the Company established its northern China, southern China, southeastern China and overseas sales management centres to improve coordination among its sales offices.

In response to the deteriorating aviation freight transportation market condition, the Company adopted measures such as surrendering and suspending freights, as well as reducing freight fleet scale significantly. It also adjusted its route network in order to stabilise its share in core markets. The Company fully pushed forward its transformation by developing value-added businesses such as logistics and freight expressway e-commerce. In respect of logistics business, the Company established six major logistics project teams for areas such as large-scale corporate projects, medical biotechnology and aviation equipment based on product positioning. It also visited major customers to proactively explore demand for logistics. The development of brand customers and direct selling cooperation projects for major clients provided logistics solutions to large and medium enterprises. In respect of freight expressway e-commerce, the commencement of eaemall.com official website can

utilise the advantages in network and centralised purchasing of Eastern Airlines. Combined with its freight expressway delivery network, Eastern Airlines is able to provide fresh and direct supply of “from the origins to dining table.” The Company’s subsidiary, Shanghai Eastern Airlines Express Delivery Company Limited, officially commenced operation of cross-border e-commerce in 2013 in the Shanghai Free Trade Zone.

In 2016, due to factors including the slowdown in the growth rate of the total world trade volume and fierce market competition, the air cargo transportation industry had relatively underperformed. As a result, Eastern Logistics has not fully accomplished the goal of its transformation. In particular, China Cargo Airlines, a subsidiary of Eastern Logistics, suffered cumulative losses during the period from 2011 to 2015. In order to further improve the Company’s operational performance, focus relevant resources on its air passenger transportation business, collect receivables and lower capital risks, the Company has transferred its 100 per cent. equity interest in Eastern Logistics to Eastern Airlines Industry Investment on 8 February 2017.

The Company explored with full efforts the potential of bellyhold through the introduction of localised products, cargo-flight projects, removal of routes with “0 and low” income, international return flight expansion projects, implementation of the reward and punish system which increases volume and income, strengthening of monitoring of external sites and the addition of “newly added” customers, the Company consolidated the output of external sites and transformation units in 2016, resulting in an increase of 2.8 per cent. of bellyhold compared to the same period the previous year.

TOURISM AND TRAVEL SERVICES AND ANCILLARY ACTIVITIES

Tourism and Travel Services

With its subsidiary, Shanghai Airlines, the Company derives revenue from tourism and travel services through Shanghai Airlines Tours, which provides various business and leisure travel services, including inbound, outbound and domestic travel, conference and exhibition planning, flight chartering and plane ticket reservation, tour bus and hotel reservation and other related services. Shanghai Airlines Tours is a member of the China Association of Travel Services and Shanghai Association of Tourism (International and Domestic Travel Services divisions), as well as a member of Shanghai Association of Quality, and has been admitted into many international travel organisations including the IATA. Shanghai Airlines Tours has won several awards as a travel services provider, as well as awards and honours for its professional staff and vacation package offerings.

The Company also derives revenues from the provision of airport ground services for airlines operating to or from Hongqiao International Airport and Pudong International Airport, including aircraft cleaning, loading, unloading, storage and ground transportation of cargo and passenger luggage. At present, the Company is the principal provider of these services at Hongqiao International Airport and Pudong International Airport. The Company provides these services to foreign carriers generally pursuant to one-year renewable contracts. Revenue generated from the Company’s airport ground services and cargo handling and processing services increased from RMB3,296 million in 2015 to RMB3,644 million in 2016. For the six months ended 30 June 2017, the Company generated net revenues of approximately RMB770 million from its airport ground services and cargo handling and processing services.

Ancillary Activities

The Company has other ancillary activities, including investments in other industrial projects and provides consulting services under Shanghai Eastern Airlines Investment Co., Ltd. Along with CEA

Holding, the Company also established China Eastern Real Estate Investment Co., Ltd., which is primarily engaged in the real estate business, including the development and sale of commercial premises and property leasing in Shanghai, China.

PATENTS AND TRADEMARKS

The Company owns or has obtained licences to use various domestic and foreign patents, patent applications and trademarks related to its business. Whilst patents, patent applications and trademarks are important to its competitive position, no single one is material to the Company as a whole.

The Company owns various trademarks related to its business. The most important trademark is the service trademark of China Eastern Airlines Corporation Limited. All of the Company's trademarks are registered in China. As at 31 December 2016, the Company own or had obtained licenses to use 68 trademarks.

INSURANCE

The CAAC purchases fleet insurance from PICC Property and Casualty Company Limited (“**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 travelling on domestic flights has been increased to RMB400,000 per passenger in March 2006, for which the Company also purchases insurance. As at 31 July 2006, the Convention for the Unification of Certain Rules for International Carriage by Air of 1999, or the Montreal Convention, became effective in China. Under the Montreal Convention being amended in 2014, carriers of international flights are strictly liable for proven damages up to 113,000 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. The Company believes that it maintains adequate insurance coverage for the civil liability that can be imposed due to injuries to passengers under Chinese law, the Montreal Convention and any other agreement that the Company is subject to. The Company also maintains engine all risk and aircraft legal liability insurance, including operator liability insurance and third-party liability insurance, of the types and in amounts customary for Chinese airlines. Please see “Risk Factors — Risks Relating to the Company — The Company's insurance coverage and costs have increased substantially, and could have an adverse effect on its operations” for more information on the Company's insurance coverage.

PROPERTY, PLANT AND EQUIPMENT

Fleet

As at 30 June 2017, the Company operated a fleet of 593 aircraft, including 583 passenger aircraft, most of which have a seating capacity of over 100 seats, and 10 business aircraft held under trust. In 2016, the Company introduced 72 aircraft of various models, including A321, A320, A319, B737 and B777 series. With the complete retirement of EMB145 and B737-300 Series aircraft, the variety of aircraft models of the Company's fleet has been further streamlined and the fleet structure has been made younger. On 28 April 2016, the Company entered into a purchase agreement with Boeing Company to purchase 15 B787-9 aircraft, which are expected to be delivered to the Company in stages from 2018 to 2021. On the same day, the Company also entered into a purchase agreement with

Airbus SAS to purchase 20 Airbus A350-900 Series aircraft, which are expected to be delivered to the Company in stages from 2018 to 2022. On 14 August 2015, the Company also entered into a purchase agreement with Airbus SAS to purchase 15 new Airbus A330 Series aircraft, which are expected to be delivered to the Company in stages from 2017 to 2018. The Company plans to continue to expand its scale in the future and to adjust and optimize its route network, thereby increasing the Company's competitiveness and ability to create more attractive products and services to meet the needs of the market.

Existing Fleet

The following tables set forth the details of the Company's fleet as at 30 June 2017:

No.	Model	Self-owned	Under finance lease	Under operating lease	Subtotal	Average fleet age (Years)
Total number of passenger aircraft . . .		222	234	127	583	5.53
Wide-body aircraft		28	41	10	79	5.61
1	B777-300ER	9	10	—	19	1.47
2	A330-300	1	13	7	21	7.64
3	A330-200	12	18	3	33	4.78
4	B767	6	—	-6		16.22
Narrow-body aircraft		194	193	117	504	5.51
5	A321	34	36	—	70	4.34
6	A320	75	56	40	171	6.87
7	A319	10	23	3	36	4.58
8	B737-800	38	60	72	170	3.95
9	B737-700	37	18	2	57	8.14
Total number of business aircraft held under trust					10	
Total					593	

The table below sets forth the daily average utilisation rates of its jet passenger aircraft for each of the years ended 31 December 2015:

	<u>2015</u>
	(in hours)
Wide-body	
B777-300ER	14.0
B767	8.5
A340-600	—
A330-300	9.1
A330-200	13.5
Narrow-body	
A321	9.2
A320	10.0
A319	9.6
B737-800	10.1
B737-700	9.2
B737-300	6.6
EMB 145LR	—
Total Passenger Aircraft Average	10.0

The table below sets forth the daily average utilisation rate of the Company's jet passenger aircraft for the year ended 31 December 2016 and the six months ended 30 June 2017:

	<u>Year ended</u> <u>31 December</u> <u>2016</u>	<u>Six months</u> <u>ended 30 June</u> <u>2017</u>
	(in hours)	(in hours)
Wide-body		
B777-300ER	13.1	14.3
B767	8.8	7.8
A330-300	8.9	9.0
A330-200	13.5	13.6
Narrow-body		
A321	9.1	9.2
A320	9.8	9.9
A319	9.5	9.8
B737-800	9.4	9.3
B737-700	7.8	8.0
B737-300	—	—
Total Passenger Aircraft average	9.7	9.7
Cargo Aircraft:		
B747-400F	11.2	—
B777F	13.1	—
Total Cargo Aircraft average	12.5	—
Total number of passenger and freight average	9.7	—

Most of the Company's jet passenger aircraft are manufactured by either Airbus or Boeing. The Company mainly introduces long-haul Boeing B777 Series aircraft in trans-Pacific routes, mid-to-long-haul Airbus A330 Series aircraft in China-Europe routes, China-Australia and domestic business routes. The Company also introduces Airbus A320 Series aircraft and Boeing B737 Series aircraft in domestic routes and international routes to surrounding countries and regions. In 2018, the Company plans to introduce the long-haul wide body Airbus A350-900 aircraft and Boeing B787-9 aircraft, the latest developed aircraft by Airbus and Boeing, respectively.

Future Fleet Development

The Company's aircraft acquisition programme focuses on aircraft that will modernise and rationalise its fleet to better meet the anticipated requirements of its route structure, taking into account aircraft size and fuel efficiency. The Company's aircraft acquisition programme, however, is subject to the approval of the CAAC and the NDRC. The Company's fleet in the future will mainly comprises of models such as B777 Series for long haul, A330 Series for long-and-medium haul, and A320 Series and B737NG Series for medium-and-short haul. Older aircraft models of high energy-consumption will be surrendered as appropriate.

Details of the introduction and retirement plan of the Company's aircraft as at 30 June 2017 are as follows:

Model	Second Half of 2017		2018		2019	
	Introduction	Retirement	Introduction	Retirement	Introduction	Retirement
Wide-body aircraft	5	2	14	14	11	—
B777 Series	1	—	—	—	—	—
A330 Series	4	—	8	10	—	—
A350 Series	—	—	2	—	5	—
B787 Series	—	—	4	—	6	—
B767 Series	—	2	—	4	—	—
Narrow-body aircraft	45	4	53	1	63	—
A320 Series	15	1	16	—	25	—
B737 Series	30	3	37	1	38	—
Total	20	6	67	15	74	—

Notes:

- (1) As at 30 June 2017, according to confirmed orders, the Company planned to introduce 72 aircraft and retire 26 aircraft between 2020 and 2022.
- (2) The abovementioned models, quantity and timing for the introduction and retirement of aircraft will be subject to adjustment based on market conditions and flight capacity allocation of the Company.

The actual quantity and time of the introduction and retirement of any of these aircraft or any additional aircraft may depend on such factors as general economic conditions, the levels of prevailing interest rates, foreign exchange rates, the level of inflation, credit conditions in the domestic and international markets, conditions in the aviation industry in China and globally, the Company's financial condition and results of operations, its financing requirements, and the terms of any financing arrangements, such as finance leases, and other capital requirements. The Company believes that its aircraft acquisition plan will help the Company accomplish its expansion plans while maintaining an efficient fleet and ensuring alternative sources of supply.

Fleet Financing Arrangements

The Company generally acquires aircraft through either long-term capital leases or operating leases. Under the terms of most capital leases, the Company generally is 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, the Company 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 the Company upon satisfaction of the final lease payment. Under capital leases, aircraft are generally leased for approximately the entirety of their estimated working life, and the leases are either non-cancellable or cancellable only on a payment of a major penalty by the lessee. As a result, the Company bears substantially all of the economic risks and rewards of ownership of the aircraft held under capital leases. Operating leases, however, are customarily cancellable by the lessee on short notice and without major penalty. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

OPERATING FACILITIES

The Company (including subsidiaries and branches) had operations on 661 parcels of land, occupying a total area of approximately 3.6 million square metres, as at 31 December 2016. In addition, as at 31 December 2016, the Company (including subsidiaries and branches) owned approximately 2,204 buildings with a total gross floor area of approximately 1.3 million square metres.

The Company and its major subsidiaries have obtained the land use rights certificates and building ownership certificates for certain parcels of land and buildings, and, for the six months ended 30 June 2017, were in the process of applying for the certificates with respect to the remaining parcels and buildings.

The Company also strives to revitalise and reallocate its land use right and building ownership resources. For the six months ended 30 June 2017, the Company's Board considered and approved the proposal with regard to the change to the plan for handling the Target Land and Buildings in the eastern district of the Shanghai Hongqiao International Airport, pursuant to which it was agreed that the transferee shall be changed from CEA Holding to its wholly-owned subsidiary, Eastern Investment. Such transaction will not only enable the Company to garner net proceeds of RMB808.0 million arising from the land use transfer and the corresponding compensation, but also help the Company to reasonably avoid idleness and waste of land. The Company's plan resonates very well with the Shanghai government's overall planning for the eastern district of Hongqiao. The Company believes that its reputation and image will be enhanced in the capital market through the said transaction.

TRANSACTIONS WITH RELATED PARTIES

The Company has, from time to time, entered into transactions with its related parties including its affiliated companies. See Note 47 to the audited consolidated financial statements of the Company for the year ended 31 December 2015 and 2016 and Note 22 to the unaudited consolidated financial statements of the Company for the six months ended 30 June 2017 which are included elsewhere in this Offering Circular.

The Company believes that each of its related party transactions was entered into in the ordinary course of business and on arm's length basis in the Company's interest and the interest of its shareholders.

DIRECTORS AND MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information concerning the Guarantor's current Directors, supervisors and senior management members. Except as disclosed below, none of the Guarantor's Directors, supervisors or members of its 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 the Guarantor.

Name	Age	Shares Owned ⁽¹⁾	Position
Liu Shaoyong	59		Chairman of the Board of Directors
Ma Xulun	53		President and Vice Chairman
Li Yangmin	54	3,960 A Shares	Director and Vice President
Xu Zhao	48		Director
Gu Jiadan	61		Director
Tang Bing	50		Director and Vice President
Tian Liuwen	58		Director and Vice President
Li Ruoshan	68		Independent Non-executive Director
Ma Weihua	69		Independent Non-executive Director
Shao Ruiqing	60		Independent Non-executive Director
Cai Hongping	63		Independent Non-executive Director
Xi Sheng	54		Chairman of the Supervisory Committee
Ba Shengji	59		Supervisor
Hu Jidong	59		Supervisor
Feng Jinxiong	55		Supervisor
Jia Shaojun	50		Supervisor
Wu Yongliang	54	3,696 A Shares	Vice President and Chief Financial Officer
Feng Liang	53		Vice President
Jiang Jiang	53		Vice President
Wang Jian	44		Board Secretary and Company Secretary

Note:

⁽¹⁾ As at 30 June 2017.

Brief biographical details in respect of each of the Directors, supervisors and senior management members of the Guarantor are as follows:

DIRECTORS

Mr. Liu Shaoyong, is currently the Chairman of the Guarantor and Chairman and party secretary of CEA Holding. Mr. Liu joined the civil aviation industry in 1978 and was appointed as vice president of China General Aviation Corporation, deputy director of Shanxi Provincial Civil Aviation Administration of the PRC, general manager of the Shanxi Branch of the Guarantor, and director general of Flight Standard Department of CAAC. Mr. Liu served as President of the Guarantor from December 2000 to October 2002, vice minister of the CAAC from October 2002 to August 2004,

president of China Southern Air Holding Company from August 2004 to December 2008, chairman of China Southern. from November 2004 to December 2008. Mr. Liu served as president and vice party secretary of CEA Holding from December 2008 to December 2016, and became the Chairman of the Guarantor since February 2009. He served as the Chairman and party secretary of CEA Holding since December 2016. Mr. Liu is also currently the council member of International Air Transport Association and the council member of Association for Relations Across the Taiwan Straits. Mr. Liu graduated from the China Civil Aviation Flight College and obtained an Executive Master of Business Administration degree from Tsinghua University. Mr. Liu holds the title of commanding pilot.

Mr. Ma Xulun, is currently the vice chairman and president of the Guarantor, director, and vice party secretary of CEA Holding. Mr. Ma was previously vice president of China Commodities Storing and Transportation Corporation, deputy director general of the Finance Department of the CAAC and vice president of Air China. In 2002, after the restructuring of civil aviation industry he was appointed as vice president of general affairs of Air China. Mr. Ma served as president and deputy party secretary of Air China from September 2004 to January 2007. Mr. Ma became a party member of China National Aviation Holding Company from December 2004 to December 2008, and deputy general manager of China National Aviation Holding Company from January 2007 to December 2008. In December 2008, Mr. Ma was appointed as president and deputy party secretary of the Guarantor and deputy party secretary of CEA Holding. Since February 2009, Mr. Ma has become a Director of the Guarantor. Mr. Ma served as vice president of the Guarantor with effect from November 2011. He served as party secretary of CEA Holding from November 2011 to December 2016. He served as director, president and vice party secretary of CEA Holding with effect from December 2016. Mr. Ma is also currently the vice president of Association of Shanghai Listed Companies. Mr. Ma graduated from Shanxi University of Finance and Economics and Huazhong University of Science and Technology. Mr. Ma holds a master's degree and is a PRC certified accountant.

Mr. Li Yangmin, is currently a Director, party secretary and vice president of the Guarantor, and vice party secretary and vice president of CEA Holding. Mr. Li joined the civil aviation industry in 1985. He was previously deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company, general manager of the aircraft maintenance base of China Eastern Air Northwest Branch Company and vice president of China Eastern Air Northwest Branch Company. Since October 2005, he has also been a vice president of the Guarantor. Since July 2010, he served as the Chairman of China Eastern Airlines Yunnan Co., Limited. He served as Safety Director of the Guarantor from July 2010 to December 2012. He has become a party member of CEA Holding since May 2011. He was appointed the party secretary and Director of the Guarantor with effect from June 2011. He served as the chairman of China Cargo Airlines. from February 2012 to January 2013. He served as the executive director of Eastern Airlines Logistics Co., Limited from December 2012 to June 2016. Since August 2016, he served as vice party secretary and vice president of CEA Holding. Mr. Li also served as a director of TravelSky Technology Limited and chairman of China Aviation Supplies Co., Limited. Mr. Li graduated from the Civil Aviation University of China and Northwestern Polytechnical University with master's degrees and obtained an Executive Master of Business Administration degree from Fudan University. He is also a qualified professor-level senior engineer.

Mr. Xu Zhao, is currently a Director of the Guarantor, and the chief accountant of CEA Holding. Mr. Xu served as engineer and accountant of Dongfeng Motor Group Company Limited, manager of the finance department of Shanghai Yanhua High Technology Limited Company, and chief financial officer of Shaanxi Heavy Duty Automobile Co., Limited. Since November 2006, Mr. Xu has served as the chief accountant of CEA Holding. He was a Supervisor of the Guarantor from June 2007 to November 2011. He has served as a Director of the Guarantor since June 2012. Mr. Xu graduated from Chongqing University, majoring in moulding, and The Chinese University of Hong Kong, majoring in

accounting, and holds a master's degree. Mr. Xu is qualified as an engineer and an accountant, and is a certified public accountant in the PRC.

Mr. Gu Jiadan, is currently a Director of the Guarantor. Mr. Gu was the assistant to president, and the general manager of the commerce department and the party secretary of Shanghai Airlines. From May 2005 to August 2009, he was a party member and vice president of Shanghai Airlines Co., Limited. From August 2009 to January 2010, he was the acting president of Shanghai Airlines. From January 2010 to July 2011, he was vice president and a party member of CEA Holding and the party secretary of Shanghai Airlines Co., Limited. Mr. Gu has served as the vice president and a party member of CEA Holding from July 2011 to December 2016. He was appointed as a Director of the Guarantor with effect from June 2012. Mr. Gu Jiadan holds a master's degree and is a senior economist.

Mr. Tang Bing, is currently a Director, vice president of the Guarantor, vice president and party member of CEA Holding. Mr. Tang joined the civil aviation industry in 1993. He served as vice executive president (general manager representing Chinese shareholder) of MTU Maintenance Zhuhai Co., Limited., office director of China Southern Airlines Holding Company and president of Chongqing Airlines Company Limited. From December 2007 to May 2009, he served as chief engineer and general manager of the Aircraft Engineering Department of China Southern. From May 2009 to December 2009, he was appointed as president of the Beijing Branch of the Guarantor and was the president of Shanghai Airlines from January 2010 to December 2011. He served as the chairman of Shanghai Airlines since January 2012 and a Vice President of the Guarantor since February 2010, and was appointed a party member of CEA Holding in May 2011 and a Director of the Guarantor in June 2012. Since December 2016, he served as the vice president of CEA Holding. Mr. Tang graduated from Nanjing University of Aeronautics and Astronautics majoring in electrical technology. He obtained a Master of Business Administration degree from the Administration Institute of Sun Yat-sen University, an Executive Master of Business Administration degree from the School of Economics and Management of Tsinghua University and a doctoral degree in national economics from the Graduate School of Chinese Academy of Social Sciences. He is also a qualified senior engineer.

Mr. Tian Liuwen, is currently a Director, vice president of the Guarantor and vice president and a party member of CEA Holding. Mr. Tian served as manager of the Beijing Sales Department under the Marketing and Sales Division of China General Aviation Corporation. He was also the head of the general manager office and chairman of the labour union and deputy general manager of the Shanxi Branch of the Guarantor. From June 2002 to January 2008, he was the vice president and subsequently president of the Hebei Branch of the Guarantor. From April 2005 to January 2008, he was the president of the Beijing Base of the Guarantor. He served as general manager of China Eastern Airlines Jiangsu Co., from January 2008 to December 2011. Since December 2011, he has been the vice president of the Guarantor. From December 2011 to June 2013, he was the president of Shanghai Airlines. Since June 2014, he has been a party member of CEA Holding. Since June 2015, he has been a Director of the Guarantor. Since December 2016, he served as the vice president of CEA Holding. Mr. Tian obtained an Executive Master of Business Administration degree from Nanjing University and is qualified as senior economist.

Mr. Li Ruoshan, is currently an independent non-executive Director of the Guarantor. Mr. Li was a deputy dean of the School of Economics and a deputy director of the Accounting Department of the School of Economics of Xiamen University; and a deputy dean of the School of Management, director of the Accounting Department, director of the Financial department of Fudan University, a member of the Consultant Professional Committee for Listed Companies of the Shanghai Stock Exchange and a consultant professional of the Committee for Accounting Standards of the Ministry of Finance. Mr. Li is currently a professor and PhD supervisor of the Accounting Department of the

School of Management of Fudan University. He is also the vice president of the Shanghai Accounting Society and Shanghai Auditing Society. In 2001, Mr. Li was awarded the “The Best 10 Independent Directors in China” by the Shanghai Stock Exchange. Mr. Li graduated from Xiamen University, majoring in accounting and obtained the first doctoral degree in auditing in China. He further studied abroad in the Katholieke Universiteit Leuven in Belgium and the Massachusetts Institute of Technology in the United States.

Mr. Ma Weihua, is currently an independent non-executive Director of the Guarantor. Mr. Ma is currently a member of the Twelfth National Committee of the Chinese People’s Political Consultative Conference, the director-general of Council of National Fund for Technology Transfer and Commercialization, a member of the Standing Council of China Society for Finance and Banking. Mr. Ma is currently an independent director of China World Trade Center Co., Limited, Postal Savings Bank of China Co., Limited and Legend Holdings Corporation at the same time and the Chairman of the Board of Supervisors of Taikang Life Insurance Co., Limited. Mr. Ma served as an executive director, president and chief executive officer of China Merchants Bank Co., Limited, the chairman of Wing Lung Bank Limited in Hong Kong, the chairman of CIGNA & CMC Life Insurance Company Limited and the chairman of China Merchants Fund Management Co., Limited. Mr. Ma obtained a doctorate degree in economics and is an adjunct professor at several higher educational institutions including Peking University and Tsinghua University.

Mr. Shao Ruiqing, is currently an independent non-executive Director of the Guarantor. Mr. Shao currently serves as a professor in accounting and a mentor to doctoral students at the Shanghai Lixin University of Commerce. He served as the deputy dean and dean of the School of Economics and Management of Shanghai Maritime University, the deputy dean of Shanghai Lixin University of Commerce and the independent director of China Shipping Haisheng Co., Limited., and SAIC Motor Corp Limited. Mr. Shao served as an independent non-executive Director of the Guarantor from June 2010 to April 2014. Mr. Shao was awarded the special allowance by the State Council of the PRC in 1995. He is currently a consultative committee member of the Ministry of Transport, as an expert in finance and accounting and the deputy head of China Association of Communications Accountancy. Mr. Shao graduated from Shanghai Maritime University, Shanghai University of Finance and Economics and Tongji University with a bachelor’s degree in economics, and master’s and doctoral degrees in management. Mr. Shao has spent two and a half years studying and being senior visiting scholar in the U.K. and Australia.

Mr. Cai Hongping, is currently an independent non-executive Director of the Guarantor. Mr. Cai currently serves as the chairman of AGIC Capital. He worked for the Industrial and Transportation Management Committee of the Shanghai Government and Sinopec Shanghai Petrochemical Company Limited (“Sinopec Shanghai”) from 1987 to 1991. He participated in the entire listing process of Sinopec Shanghai in Hong Kong and the United States and is one of the founders of H shares in China. From 1992 to 1996, he acted as a member of the Overseas Listing Team for Chinese Enterprises under the Restructuring Committee of the State Council and the chairman of the Joint Committee of Board Secretaries for H Share Companies in China. He served as a joint director of the investment banking division of Peregrine Investments Holdings Limited in Asia from 1997 to 2006, chairman of the investment banking division of UBS AG in Asia from 2006 to 2010, chairman of Deutsche Bank in the Asia Pacific region from 2010 to 2015, independent non-executive director of China Oceanwide Holdings Limited (formerly known as Hutchinson Harbour Ring Limited, stock code: 715) from November 2014 to present and independent director and chairman of the audit committee of Minmetals Development Co., Limited from April 2015 to December 2015. He became an external director of China Minmetals Corporation with effect from December 2015. Mr. Cai graduated from Fudan University, majoring in mass communications.

SUPERVISORY COMMITTEE

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

Mr. Xi Sheng, is currently the chairman of the Supervisory Committee of the Guarantor and chief auditor of CEA Holding. Mr. Xi served as the deputy head of the foreign affairs department II of the foreign funds utilization and application audit department and the head of the liaison and reception office of the foreign affairs department of the National Audit Office of the PRC and the deputy head of the PRC Audit Institute. He was also the head of the fixed assets investment audit department of the National Audit Office of the PRC, and the party secretary and a special commissioner of the Harbin office of the National Audit Office of the PRC. He served as the head of the personnel and education department of the National Audit Office of the PRC from January 2007 to September 2009. He was the head of the audit department of CEA Holding from September 2009 to November 2012. Mr. Xi has served as the chief auditor of CEA Holding since September 2009. Since June 2012, he has been a supervisor of the Guarantor. Since June 2016, he has been the chairman of the Supervisory Committee of the Guarantor. Mr. Xi is also the council member of China Institute of Internal Audit and vice chairman of executive committee of Asia Internal Audit Organisation. Mr. Xi graduated from Jiangxi University of Finance and Economics with undergraduate education background. He is a senior auditor, a Chinese Certified Public Accountant (CPA) and an International Certified Internal Auditor (CIA).

Mr. Ba Shengji, is currently a Supervisor of the Guarantor and the chairman of the labour union of CEA Holding. Mr. Ba joined the civil aviation industry in 1978. He served as the section manager and deputy head of the finance department. He was the chief officer of the auditing office of the Guarantor from March 1997 to October 1997, chief officer of the auditing office of CEA Holding from October 1997 to July 2000, head of the audit department of CEA Holding from July 2000 to January 2003, chief officer of disciplinary committee office, head of supervision department and head of audit department of CEA Holding from January 2003 to May 2003. He served as the deputy head of party disciplinary inspection group, chief officer of disciplinary committee office, head of supervision department and head of the audit department of CEA Holding from May 2003 to November 2006. He was the secretary of the disciplinary committee of the Guarantor from November 2006 to November 2009 and the secretary of the disciplinary committee and chairman of the labour union of the Guarantor from November 2009 to November 2011. He served as the deputy secretary of the party committee and secretary of the disciplinary committee of the Guarantor from November 2011 to August 2013. Since June 2013, he has been a supervisor of the Guarantor. He has served as the chairman of the labour union of CEA Holding since August 2013. Mr. Ba graduated from Shanghai Television University.

Mr. Hu Jidong, is currently a supervisor, deputy party secretary and chairman of the labour union of the Guarantor. Mr. Hu joined the civil aviation industry in 1977. He has been the deputy head of the party promotion department of the Guarantor, deputy head and head of the party working department of CEA Holding, and head of the party working department of CEA Holding. He was a member of the party standing committee and chairman of the labour union of the Guarantor from December 2011 to August 2013; deputy party secretary, secretary of the disciplinary committee, and chairman of the labour union of the Guarantor from August 2013 to August 2014; deputy party secretary and chairman of the labour union of the Guarantor since August 2014; and supervisor of the Guarantor since June 2016. Mr. Hu Jidong graduated from Shanghai University with a major in cultural management and Fudan University with a major in administrative management.

Mr. Feng Jinxiong, is currently a supervisor and general manager of the audit department of the Guarantor and a head of the audit department of CEA Holding. Mr. Feng joined the civil aviation industry in 1982, and served as deputy head and head of the planning department of the Guarantor, head of the finance department and deputy chief accountant of CEA Holding, manager of the human resources department of the Guarantor, vice president of CES Finance, and deputy general manager of the Shanghai security department of the Guarantor. He also served as president of the China Eastern Airlines Wuhan Co., Limited from 2007 to 2009. Since February 2009, he has been general manager of the audit department of the Guarantor. He has been a supervisor of the Guarantor since March 2009. He has been the head of the audit department of CEA Holding from May 2014. Mr. Feng graduated from the Civil Aviation University of China and the Graduate School of the Chinese Academy of Social Sciences, holding a master's degree.

Mr. Jia Shaojun, is currently a supervisor of the Guarantor and head of the financial department of CEA Holding. Mr. Jia was general manager of the financial department and secretary of party general branch of the financial department of the Guarantor. He served as general manager of the finance and accounting department of the Guarantor from December 2011 to November 2012 and head of the audit department of CEA Holding from November 2012 to May 2014. He has acted as head of the financial department of CEA Holding since May 2014. He has acted as supervisor of the Guarantor since June 2016. Mr. Jia graduated from Civil Aviation College of China and Fudan University School of Management, holding an executive MBA degree. He is qualified as a senior accountant.

SENIOR MANAGEMENT

Mr. Wu Yongliang, is currently a vice president and chief financial officer of the Guarantor. Mr. Wu joined the civil aviation industry in 1984 and served as deputy head and subsequently head of the finance department of the Guarantor, head of the planning and finance department of the Guarantor and head of the finance department of CEA Holding. From 2001 to March 2009, he served as deputy chief accountant and head of the finance department of CEA Holding. From April 2009 onwards, he has served as chief financial officer of the Guarantor. He has been a vice president and chief financial officer of the Guarantor since December 2011. Mr. Wu graduated from the Faculty of Economic Management of Civil Aviation University of China, majoring in planning and finance. He also graduated from Fudan University, majoring in business administration. Mr. Wu was awarded the postgraduate qualification and is a certified accountant.

Mr. Feng Liang, is currently a vice president and the chief engineer of the Guarantor. Mr. Feng joined the civil aviation industry in 1986 and worked in the aircraft maintenance base routes department of the Guarantor. From 1999 to 2006, he used to serve as the head of the aircraft maintenance base engineering technology department, chief engineer of the base and general manager of the base. He also served as the general manager of China Eastern Air Engineering & Technique after it was established in September 2006. He has served as the chief engineer of the Guarantor since August 2010, the chief security officer of the Guarantor from December 2012 to December 2014 and the vice president of the Guarantor since August 2013. Mr. Feng graduated from Civil Aviation University of China, majored in aircraft electrical equipment maintenance and obtained an MBA degree from Shanghai Jiao Tong University.

Mr. Jiang Jiang, is currently a vice president of the Guarantor, and general manager of China Eastern Airlines Wuhan Co., Limited. Mr. Jiang joined the civil aviation industry in 1986, and has worked in the Civil Aviation Industry Airline Corporation and China General Aviation Corporation. From June 1999 to April 2005, he served as the deputy manager and manager of the flight division of the Shanxi Branch of the Guarantor. From April 2005 to July 2010, he was the deputy general manager of the Shanxi Branch of the Guarantor. From July 2010 to June 2014, he served as the general manager

and the deputy secretary of the party committee of the Shanxi Branch of the Guarantor. From June 2014 to December 2016, he served as general manager and the deputy secretary of the party committee of China Eastern Airlines Wuhan Co., Limited. From December 2016 to February 2017, he has served as the person-in-charge of the safety operation management of the Guarantor and general manager of China Eastern Airlines Wuhan Co., Limited. Since February 2017, he has served as the vice president of the Guarantor and general manager of China Eastern Airlines Wuhan Co., Limited. Mr. Jiang graduated from the Flight College of Civil Aviation Flight University of China, majored in aviation transportation and obtained an Executive Master of Business Administration degree from Fudan University. He has the professional title of Level 1 pilot.

Mr. Wang Jian, is currently the Guarantor's Board secretary and company secretary. Mr. Wang joined the Guarantor in 1995 and served as deputy head of the Guarantor's office and deputy general manager of the Shanghai Business Office of the Guarantor. From September 2006 to May 2009, he was the deputy general manager in the Shanghai Base of China Southern. He served as the head of the Board secretariat of the Guarantor and a representative of the Guarantor's securities affairs from May 2009 to April 2012. He served as the Board secretary and the head of the Board secretariat of the Guarantor in April 2012 to May 2016. From May 2016, he served as a secretary to the Board of the Guarantor. During his term as secretary to the Board and his relevant work, he designed and promoted to implement several capital and strategic projects of the Guarantor. Mr. Wang graduated from Shanghai Jiao Tong University and has an Master of Business Administration postgraduate degree from East China University of Science and Technology and an Executive Master of Business Administration degree from Tsinghua University as well as a qualification certificate for Board secretaries of listed companies issued by the Shanghai Stock Exchange.

PRINCIPAL SHAREHOLDER

The following table sets forth certain information regarding ownership of the Guarantor's capital stock by all persons who were known to the Guarantor to be the beneficial owners of five per cent. or more of its capital stock as at 30 June 2017:

Title of Class	Identity of Person or Group	Amount Owned	Percent of Class	Percent of Total Shares
Domestic A Shares . . .	CEA Holding ⁽¹⁾	5,530,240,000	56.38%	38.23%
H Shares	CES Global ⁽²⁾	2,626,240,000	56.37%	18.15%
H Shares	HKSCC Nominees Limited ⁽³⁾	4,182,285,289	89.77%	28.91%

Notes:

- ⁽¹⁾ Among such A shares, 5,072,922,927 A shares (representing approximately 51.72% of the Guarantor's then total issued A shares) were held by CEA Holding in the capacity of beneficial owner; and 457,317,073 A shares (representing approximately 4.66% of the Guarantor's then total issued A shares) were held by CES Finance in the capacity of beneficial owner, which in turn was 100% held by CEA Holding.
- ⁽²⁾ Such H shares were held by CES Global in the capacity of beneficial owner, which in turn was 100% held by CEA Holding.
- ⁽³⁾ Among the 4,182,285,289 H shares held by HKSCC Nominees Limited, 2,626,240,000 H shares (representing approximately 56.37% of the Guarantor's then total issued H shares) were held by CES Global in the capacity of beneficial owner, which in turn was 100% held by CEA Holding.

As at 30 June 2017, CEA Holding held 56.38 per cent. (38.23 per cent. directly held and another 18.15 per cent. indirectly through its wholly-owned subsidiary, CES Global) of the Guarantor's issued and outstanding capital stock, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. The Guarantor is not aware of any arrangement which may at a subsequent date result in a change of control of the Guarantor.

As at 31 December 2016, there were 4,659,100,000 H Shares issued and outstanding. As at 21 April 2017, there were 40 registered holders of American Depositary Receipts evidencing 1,950,955 ADRs. Since certain of the ADRs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADRs or the number of ADRs beneficially held by U.S. persons.

The Guarantor is currently a majority-owned subsidiary of CEA Holding. CEA Holding itself is a wholly state-owned enterprise under the administrative control of the SASAC. CEA Holding's shareholding in the Guarantor 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.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

Singapore

The statements below are general in nature and are based on certain aspects of current tax laws in Singapore and administrative guidelines and circulars issued by the Inland Revenue Authority of Singapore and the Monetary Authority of Singapore (“MAS”) in force as at the date of this Offering Circular and are subject to any changes in such laws, administrative guidelines or circulars, or the interpretation of those laws, administrative guidelines or circulars, occurring after such date, which changes could be made on a retroactive basis. These laws, administrative guidelines and circulars are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. Neither these statements nor any other statements in this Offering Circular are intended or are to be regarded as advice on the tax position of any holder of the Bonds or of any person acquiring, selling or otherwise dealing with the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. The statements made herein do not purport to be a comprehensive or exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Bonds and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial Sector Incentive(s)) may be subject to special rules or tax rates. Prospective holders of the Bonds are advised to consult their own professional tax advisers as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of the Bonds, including, in particular, the effect of any foreign, state or local tax laws to which they are subject to. It is emphasised that none of the Issuer, Guarantor, the Joint Lead Managers, the Trustee, the Agents and any other persons involved in the issuance of the Bonds accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Bonds.

Income Tax

Singapore taxes income on a territorial and remittance basis. Only Singapore-sourced income or foreign-sourced income received (or deemed received) in Singapore is subject to Singapore income tax, unless an exemption applies.

Any gains considered to be in the nature of capital made from the sale of the Bonds will not be taxable in Singapore. However, any gains derived by any person from the sale of the Bonds which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Qualifying Debt Securities

Where the Bonds are issued prior to 31 December 2018 and (i) more than half of the lead managers of the issue of the Bonds are companies which are Financial Sector Incentive (Bond Market) Companies, Financial Sector Incentive (Standard Tier) Companies or Financial Sector Incentive (Capital Market) Companies (each as defined in the ITA), or (ii) the Issuer is not a “Singapore-based Issuer” (as defined in the ITA) and more than half of the Bonds are distributed by Financial Sector Incentive (Bond Market) Companies, Financial Sector Incentive (Standard Tier) Companies or Financial Sector Incentive (Capital Market) Companies, the Bonds may be “qualifying debt securities” (“QDS”) for the purposes of the ITA, if the Bonds satisfy the other criteria set out in the ITA to qualify as QDS. If the Bonds qualify as QDS the following treatments would apply:

- i. subject to certain prescribed conditions having been fulfilled (including the furnishing of a return on debt securities in the prescribed format for the Bonds within such period by the Issuer, or such other person as the relevant authorities may direct, as the relevant authorities may specify and such other particulars in connection with the Bonds as the relevant authorities may require to the MAS and such other relevant authorities as may be prescribed and the inclusion by the Issuer in all offering documents relating to the Bonds of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost from the Bonds is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires the Bonds using funds and profits from that person’s operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the “Qualifying Income”) from the Bonds paid by the Issuer and derived by a holder who is not resident in Singapore and who (a) does not have any permanent establishment in Singapore or (b) carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire the Bonds are not obtained from such person’s operation through a permanent establishment in Singapore, are exempt from Singapore tax;
- ii. subject to certain conditions having been fulfilled (including the furnishing by the Issuer, or such other person as the relevant authorities may direct, of a return on debt securities in the prescribed format for the Bonds within such period as the relevant authorities may specify and such other particulars in connection with the Bonds as the relevant authorities may require to the MAS and such other relevant authorities as may be prescribed), Qualifying Income from the Bonds paid by the Issuer and derived by any company or body of persons (as defined in the ITA) in Singapore is subject to tax at a concessionary rate of 10.0% (except for holders of the relevant Financial Sector Incentive(s) who may be taxed at different rates); and
- iii. subject to:
 - (a) the Issuer including in all offering documents relating to the Bonds a statement to the effect that any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Bonds is not exempt from tax shall include such income in a return of income made under the ITA; and
 - (b) the Issuer, or such other person as the relevant authorities may direct, furnishing to the MAS and such other relevant authorities as may be prescribed of a return on debt securities

in the prescribed format for the Bonds within such period as the relevant authorities may specify and such other particulars in connection with the Bonds as the relevant authorities may require,

payments of Qualifying Income derived from the Bonds would not be subject to withholding of tax in Singapore by the Issuer.

Notwithstanding the foregoing:

- A. if during the primary launch of the Bonds, the Bonds are issued to fewer than four persons and 50.0% or more of the issue of the Bonds is beneficially held or funded, directly or indirectly, by related parties of the Issuer, the Bonds would not qualify as QDS; and
- B. even if the Bonds qualify as QDS, if 50.0% or more of the issue of the Bonds which are outstanding at any time during the life of the issue is beneficially held or funded, directly or indirectly, by any related party(ies) of the Issuer, Qualifying Income derived from the Bonds held by:
 - (a) any related party of the Issuer; or
 - (b) any other person where the funds used by such person to acquire the Bonds are obtained, directly or indirectly, from any related party of the Issuer,

shall not be eligible for the tax exemption or concessionary rate of tax described above.

The term “**related party**”, in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms “**break cost**”, “**prepayment fee**” and “**redemption premium**” are defined in the ITA as follows:

- break cost, in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;
- prepayment fee, in relation to debt securities and qualifying debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and
- redemption premium, in relation to debt securities and qualifying debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

References to “break cost”, “prepayment fee” and “redemption premium” in this Singapore tax disclosure shall have the same meaning as defined in the ITA.

Where the Qualifying Income is derived from the Bonds by a person who is not resident in Singapore and who carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for “qualifying debt securities” under the ITA (as mentioned

above) shall not apply if such person acquires the Bonds using the funds and profits of such person's operations through a permanent establishment in Singapore. Any person whose Qualifying Income derived from the Bonds is chargeable to tax in Singapore and is not exempt from tax in Singapore, is required to include such income in a return of income made under the ITA.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest in respect of the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied by the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

1. interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
2. interest on the Bonds is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or
3. interest on the Bonds is derived from Hong Kong and is received by or accrues to a person (other than a company) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

Estate Duty

No Hong Kong estate duty is payable in respect of the Bonds.

PRC

The following summary accurately describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for PRC tax

purposes. These beneficial owners are referred to as non-PRC Bondholders in this “PRC taxation” section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the Enterprise Income Tax Law (amended on 24 February 2017) and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose actual management organs are within the territory of China shall be PRC tax resident enterprises for the purpose of the Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the actual management organ of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside the PRC. As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the Enterprise Income Tax Law. On that basis, holders of the Bonds will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Bonds or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the Enterprise Income Tax Law and related implementation regulations in the future. Pursuant to the Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or with incomes that have no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent. on its income sourced inside the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer shall withhold income tax from the payments of interest in respect of the Bonds for each non-PRC Bondholder. However, where the withholding or deduction is made by the Issuer or the Guarantor by or within the PRC at a rate up to and including the Applicable Rate (as defined in the Terms and Conditions), the Issuer or the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by holders of the Bonds equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required, as further set out in the Terms and Conditions of the Bonds.

According to the double taxation arrangement between mainland China and Hong Kong and relevant PRC tax regulations, residents of Hong Kong will not be subject to PRC tax on any capital gains from a sale or exchange of the Bonds. For other investors of the Bonds, according to the Enterprise Income Tax Law and related implementation regulations, it is unclear whether the capital gains of non-resident enterprises derived from a sale or exchange of the Bonds will be subject to PRC income tax. If such capital gains are determined as income sourced in China by PRC tax authority, those non-resident enterprise holders, other than Hong Kong residents, may be subject to enterprise income tax at a rate of 10 per cent. of the gross proceeds (unless other tax preferential treatments are provided by any special tax arrangements).

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated [●] 2017 (the “Subscription Agreement”) pursuant to which, and subject to certain conditions contained in the Subscription Agreement, the Issuer agreed to sell to the Joint Lead Managers, and the Joint Lead Managers severally and not jointly agreed to subscribe for, the aggregate principal amount of the Bonds indicated in the following table.

	Principal amount of Bonds
	(SGD)
Joint Lead Managers	
DBS Bank Ltd.	[●]
Standard Chartered Bank	[●]
China Construction Bank Corporation, Singapore Branch	[●]
SPDB International Capital Limited	[●]
Shanghai Pudong Development Bank Co., Ltd. Singapore Branch	[●]
Industrial and Commercial Bank of China Limited, Singapore Branch	[●]
Bank of China Limited	[●]
ABCI Capital Limited	[●]
Agricultural Bank of China Limited, Singapore Branch	[●]
Bank of Communications Co., Ltd. Hong Kong Branch	[●]
The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch	[●]
Australia and New Zealand Banking Group Limited	[●]
CMBC Securities Company Limited	[●]
Haitong International Securities Company Limited	[●]
Total	<u>[●]</u>

The Subscription Agreement provides that the Issuer and the Guarantor will indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

General

The Bonds are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of any trading market for the Bonds.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement

thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

In connection with the offering of the Bonds, each Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered should be read as including any offering of the Bonds to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

United States

The Bonds and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States unless pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States (by a dealer that is not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

People’s Republic of China

Each Joint Lead Manager has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People’s Republic of China.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance;

or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Note:

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Bonds may not be circulated or distributed, nor may any Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (c) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (d) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

1. to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
2. where no consideration is or will be given for the transfer;
3. where the transfer is by operation of law; or
4. as specified in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

Taiwan

Each Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, at any time, directly or indirectly, any Bonds acquired by it as part of the offering in Taiwan or to, or for the account or benefit of, any resident of Taiwan, unless otherwise permitted by the laws and regulations of Taiwan.

Macau

Each Joint Lead Manager has represented and agreed that the Bonds may not be promoted, distributed, sold or delivered in the Macau Special Administrative Region of the People's Republic of China ("Macau"), or any document relating to the Bonds be distributed or circulated in Macau, except under the terms of and in compliance with the Macau Financial System Act and any other laws in Macau that may apply to the offer and sale of the Bonds in Macau. The Bonds are not registered or otherwise authorised for public offer under the Financial System Act of Macau, thus may not be offered or sold in Macau, unless such offer is made by Macau licensed entities according to the Macau Financial System Act and upon their communication to the Macau Monetary Authority, in observation of the guidelines and recommendations issued by the Macau local regulatory authority from time to time.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

GENERAL INFORMATION

1. **Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream. The ISIN for the Bonds is XS[●] and the Common Code is [●].
2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the board of directors of the Issuer on 27 October 2017 and shareholder resolutions of the Issuer on 2 November 2017. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee. The giving of the Guarantee was authorised by resolutions of the Board of Directors and a general meeting of the shareholders of the Guarantor on 27 April 2017 and 28 June 2017, respectively.
3. **No Material Adverse Change:** There has been no material adverse change, or any development likely to involve an adverse change, in the financial or trading position or to the condition (financial or otherwise), prospects, results of operations, capitalisation, profitability, business, properties, general affairs or management of the Issuer, the Company or the Group since 30 June 2017.
4. **Litigation:** Save as disclosed in the Offering Circular, neither the Issuer nor the Company nor any member of the Group is involved in any litigation or arbitration proceedings that the Issuer or the Company believes are material in the context of the Bonds nor is the Issuer or the Company aware that any such proceedings are pending or threatened.
5. **Reliance on Certificates:** Pursuant to the Terms and Conditions of the Bonds and the Trust Deed, the Trustee may rely without liability to Bondholders on a report, confirmation, certificate or opinion or any advice of any accountants, lawyers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.
6. **Available Documents:** Copies of the Guarantor's annual reports for the years ended 31 December 2015 and 2016 prepared in accordance with IFRS, the Deed of Guarantee, the Trust Deed and the Agency Agreement relating to the Bonds and the Memorandum and Articles of Association of the Issuer and the Guarantor will be available for inspection from the Issue Date at the Issuer's registered office at 22/F, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong and at the principal office of the Trustee (being at the Issue Date at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) upon prior written request and satisfactory proof of holding at all reasonable times during normal business hours, so long as any of the Bonds is outstanding. The Guarantor prepares and publishes an annual report every year and an interim report semi-annually. Copies of the Guarantor's annual report and interim report in respect of the latest year and period can be obtained from its corporate website.
7. **Audited and Unaudited Financial Statements:** The Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2015 and 2016 prepared in accordance with IFRS, which are included elsewhere in this Offering Circular, have been audited by Ernst & Young, Certified Public Accountants, as stated in its report appearing herein.

The Guarantor's reviewed consolidated financial statements as at and for the six months ended 30 June 2016 and 2017 are derived from the Guarantor's published unaudited consolidated financial statements for the six months ended 30 June 2016 and 2017, which have been prepared and presented in accordance with IFRS.

8. **Listing:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to professional investors only. It is expected that dealing in and listing of the Bonds on the Hong Kong Stock Exchange will commence on [●] 2017.

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Notes:

- ⁽¹⁾ The unaudited consolidated financial statements of the Guarantor set out herein have been reproduced from the Guarantor's interim report for the six months ended 30 June 2017 and page reference are references to pages set forth in such interim report.
- ⁽²⁾ The audited consolidated financial statements of the Guarantor set out herein have been reproduced from the Guarantor's annual report for the year ended 31 December 2016 and page references are references to pages set forth in such annual report.

INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Revenues	5	48,423	46,335
Other operating income and gains	6	4,766	2,772
Gain on fair value changes of derivative financial instruments		—	2
Operating expenses			
Aircraft fuel		(12,139)	(8,363)
Take-off and landing charges		(6,430)	(5,794)
Depreciation and amortisation		(6,547)	(5,801)
Wages, salaries and benefits		(8,860)	(8,314)
Aircraft maintenance		(2,165)	(2,259)
Impairment charges		(9)	(3)
Food and beverages		(1,501)	(1,401)
Aircraft operating lease rentals		(2,235)	(2,317)
Other operating lease rentals		(401)	(345)
Selling and marketing expenses		(1,593)	(1,631)
Civil aviation development fund		(1,004)	(945)
Ground services and other expenses		(1,916)	(2,769)
Indirect operating expenses		(2,059)	(2,009)
Total operating expenses		(46,859)	(41,951)
Operating profit		6,330	7,158
Share of results of associates		113	73
Share of results of joint ventures		31	23
Finance income		703	34
Finance costs	8	(1,404)	(2,717)
Profit before income tax		5,773	4,571
Income tax expense	9	(1,152)	(1,041)
Profit for the period		4,621	3,530

INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Other comprehensive income for the period			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Cash flow hedges, net of tax		(137)	(178)
Fair value changes of available-for-sale investments, net of tax		99	35
Fair value changes of available-for-sale investments held by an associate, net of tax		5	(7)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(33)	(150)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial gains on the post-retirement benefit obligations, net of tax		184	30
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		184	30
Other comprehensive income, net of tax		151	(120)
Total comprehensive income for the period		4,772	3,410
Profit attributable to:			
Equity holders of the Company		4,341	3,230
Non-controlling interests		280	300
Profit for the period		4,621	3,530
Total comprehensive income attributable to:			
Equity holders of the Company		4,486	3,107
Non-controlling interests		286	303
Total comprehensive income for the period		4,772	3,410
Earnings per share attributable to the equity holders of the Company during the period			
– Basic and diluted (RMB)	10	0.30	0.25

INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>Notes</i>	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Non-current assets			
Property, plant and equipment	12	158,117	153,180
Investment properties		315	321
Lease prepayments		1,734	2,064
Intangible assets	13	11,592	11,624
Advanced payments on acquisition of aircraft	14	25,032	23,357
Investments in associates		1,611	1,536
Investments in joint ventures		555	524
Available-for-sale investments		777	645
Other non-current assets		2,521	2,969
Deferred tax assets		84	79
Derivative financial instruments		87	137
		202,425	196,436
Current assets			
Flight equipment spare parts		2,353	2,248
Trade and notes receivables	15	2,867	2,660
Prepayments and other receivables		9,706	9,231
Derivative financial instruments		11	11
Restricted bank deposits and short-term bank deposits		40	43
Cash and cash equivalents		8,563	1,695
		23,540	15,888
Current liabilities			
Sales in advance of carriage		7,190	7,677
Trade and bills payables	16	3,119	3,376
Other payables and accruals		18,239	20,250
Current portion of obligations under finance leases	17	7,123	6,447
Current portion of borrowings	18	40,176	28,842
Income tax payable		323	304
Current portion of provision for return condition checks for aircraft under operating leases		904	1,175
Derivative financial instruments		149	11
		77,223	68,082
Net current liabilities		(53,683)	(52,194)
Total assets less current liabilities		148,742	144,242

INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>Notes</i>	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Non-current liabilities			
Obligations under finance leases	17	57,298	54,594
Borrowings	18	25,842	27,890
Provision for return condition checks for aircraft under operating leases		1,947	2,495
Other long-term liabilities		3,836	3,874
Post-retirement benefit obligations		2,510	2,890
Deferred tax liabilities		68	86
Derivative financial instruments		38	47
		91,539	91,876
Net assets			
		57,203	52,366
Equity			
Equity attributable to the equity holders of the Company			
– Share capital	19	14,467	14,467
– Reserves		39,469	34,983
		53,936	49,450
Non-controlling interests			
		3,267	2,916
Total equity			
		57,203	52,366

INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to equity holders of the Company				Non-controlling interests RMB million (Unaudited)	Total equity RMB million (Unaudited)
	Share capital	Other reserves	Retained profits	Subtotal		
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)		
Balance at 1 January 2017	14,467	26,199	8,784	49,450	2,916	52,366
Profit for the period	–	–	4,341	4,341	280	4,621
Other comprehensive income	–	145	–	145	6	151
Total comprehensive income for the period	–	145	4,341	4,486	286	4,772
Disposal of a subsidiary (Note 20)	–	–	–	–	87	87
Dividends paid to non-controlling interests	–	–	–	–	(22)	(22)
Balance at 30 June 2017	14,467	26,344*	13,125*	53,936	3,267	57,203

	Attributable to equity holders of the Company				Non-controlling interests RMB million (Unaudited)	Total equity RMB million (Unaudited)
	Share capital	Other reserves	Retained profits	Subtotal		
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Unaudited)		
Balance at 1 January 2016	13,140	19,103	5,168	37,411	2,520	39,931
Profit for the period	–	–	3,230	3,230	300	3,530
Other comprehensive income	–	(123)	–	(123)	3	(120)
Total comprehensive income for the period	–	(123)	3,230	3,107	303	3,410
Issue of shares	1,327	7,213	–	8,540	–	8,540
Dividends paid to non-controlling interests	–	–	–	–	(57)	(57)
Balance at 30 June 2016	14,467	26,193	8,398	49,058	2,766	51,824

* These reserve accounts comprise the unaudited consolidated reserve of RMB39,469 million in the unaudited interim condensed consolidated statement of financial position.

INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Cash flows from operating activities		
Profit before tax	5,773	4,571
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of property, plant and equipment	6,445	5,705
Depreciation of investment properties	6	5
Amortisation of intangible assets	70	63
Amortisation of lease prepayments	26	28
Amortisation of other long term assets	180	181
Impairment of trade receivables	2	–
Loss/(gain) on disposal of property, plant and equipment	2	(44)
Fair value adjustment of derivative financial instrument	–	(2)
Share of results of associates and joint ventures	(144)	(96)
Gain on disposal of available-for-sale investments	–	(95)
Gain on disposal of investment in a subsidiary	(1,754)	–
Gain on disposal of an associate	(12)	–
Dividend income from available-for-sale investments	(5)	(20)
Net foreign exchange (gains)/losses	(535)	1,725
Interest income	(29)	(34)
Interest expense	1,353	1,317
Provisions for flight equipment spare parts	7	3
Increase in flight equipment spare parts	(170)	(133)
Increase in trade and other receivables and prepayments	(3,214)	(1,090)
Increase/(decrease) in trade and other payables	423	(732)
Cash generated from operations	8,424	11,352
Income tax paid	(1,152)	(817)
Net cash flows from operating activities	7,272	10,535

INTERIM FINANCIAL INFORMATION
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Cash flows from investing activities		
Additions to property, plant and equipment	(5,341)	(3,602)
Additions to intangible assets	(50)	(142)
Advanced payments on acquisition of aircraft	(7,569)	(13,239)
Investment in an associate	(33)	–
Proceeds from disposal of a subsidiary	1,897	–
Proceeds from disposal of assets classified as held for sale	–	168
Proceeds from disposal of property, plant and equipment	172	356
Proceeds from disposal of investment in an associate	12	–
Increase in short-term deposits	(4)	–
Proceeds from disposal of lease payments	–	39
Interest received	29	34
Dividends received	29	18
Loans to a joint venture	–	(4)
Net cash flows used in investing activities	(10,858)	(16,372)
Cash flows from financing activities		
Proceeds from issue of shares	–	8,540
Proceeds from draw-down of short-term bank loans	25,103	35,438
Repayments of short-term debentures	(21,000)	(12,000)
Repayments of short-term bank loans	(11,165)	(31,665)
Proceeds from issuance of short-term debentures	19,000	35,500
Proceeds from issuance of long-term debentures and bonds	–	3,000
Proceeds from draw-down of long-term bank loans and other financing activities	6,466	12,283
Repayments of long-term bank loans	(2,832)	(28,251)
Repayments of long-term bonds	–	(5,497)
Repayments of principal of finance lease obligations	(3,276)	(5,652)
Interest paid	(1,826)	(1,758)
Dividends paid to non-controlling interests of subsidiaries	(22)	(57)
Net cash flows from financing activities	10,448	9,881
Net increase in cash and cash equivalents	6,862	4,044
Cash and cash equivalents at beginning of period	1,695	9,080
Effect of foreign exchange rate changes	6	90
Cash and cash equivalents at 30 June	8,563	13,214

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

1. CORPORATE AND GROUP INFORMATION

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

In the opinion of the directors, the holding company and ultimate holding company of the Company is China Eastern Air Holding Company (“**CEA Holding**”), a state-owned enterprise established in the PRC.

The A shares, H shares and American Depositary Receipts are listed on the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and The New York Stock Exchange, respectively.

The unaudited interim condensed consolidated financial statements were approved for issue by the Company’s Board on 29 August 2017.

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements, comprising interim condensed consolidated statement of financial position as at 30 June 2017, interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months ended 30 June 2017 (collectively refer to as the “**interim financial information**”), have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The interim financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which were prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standard Board (“**IASB**”).

2. BASIS OF PREPARATION (cont'd)

As at 30 June 2017, the Group's current liabilities exceeded its current assets by approximately RMB53.68 billion. In preparing the interim financial information, the Board conducts adequate and detailed review over the Group's going concern ability based on the current financial situation.

The Board has taken actions to deal with the situation that current liabilities exceeded its current assets, and the Board is confident that the Group has obtained adequate credit facility from the banks to support the floating capital. As at 30 June 2017, the Group had total unutilised credit facilities of approximately RMB56.98 billion from banks.

Based on the bank facility obtained by the Group, the past record of the financing and the good working relationship with major banks and financial institutions, the Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements for the upcoming twelve months. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these amendments apply for the first time in 2017, they do not have a material impact on the interim condensed consolidated financial statements of the Group. The nature and the impact of each amendment is described below:

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (cont'd)

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ending 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The adoption of these amendments has no effect on the Group's financial position and performance as there is no such tax law for the group which restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference.

Annual Improvements Cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10 – B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The Group has adopted the amendments retrospectively. However, the adoption has no effect on the Group's financial position and performance as the Group has no such investments that are classified as held for sale.

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

The interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

There have been no changes in the risk management department since the 2016 year end or in any risk management policies.

Liquidity risk

The Group's primary cash requirements are for day-to-day operations, additions of and upgrades to aircraft, engines and flight equipment and repayments of related borrowings. The Group finances its working capital requirements through a combination of funds generated from operations and borrowings including bank loans, debentures and bonds (both short-term and long-term). The Group generally finances the acquisition of aircraft through long-term finance leases or bank loans.

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

4. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Financial risk factors (cont'd)

Liquidity risk (cont'd)

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB million (Unaudited)	1 and 2 years RMB million (Unaudited)	2 and 5 years RMB million (Unaudited)	Over 5 years RMB million (Unaudited)	Total RMB million (Unaudited)
At 30 June 2017					
Borrowings	41,999	7,904	10,581	10,339	70,823
Derivative financial instruments	149	24	6	8	187
Obligations under finance leases	8,967	8,742	22,969	33,889	74,567
Trade, bills and other payables	15,390	–	–	–	15,390
Total	66,505	16,670	33,556	44,236	160,967

	Less than 1 year RMB million (Audited)	1 and 2 years RMB million (Audited)	2 and 5 years RMB million (Audited)	Over 5 years RMB million (Audited)	Total RMB million (Audited)
At 31 December 2016					
Borrowings	30,262	5,670	14,961	10,813	61,706
Derivative financial instruments	11	33	8	6	58
Obligations under finance leases	8,123	7,526	21,905	33,277	70,831
Trade, bills and other payables	16,318	–	–	–	16,318
Total	54,714	13,229	36,874	44,096	148,913

4. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Fair value estimation of financial assets and liabilities

Financial instruments not measured at fair value

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, were as follows:

	30 June 2017		31 December 2016	
	Carrying amounts RMB million (Unaudited)	Fair values RMB million (Unaudited)	Carrying amounts RMB million (Audited)	Fair values RMB million (Audited)
Financial assets				
Deposits relating to aircraft held under operating leases included in other non-current assets	238	216	285	258
Financial liabilities				
Long-term borrowings	25,842	25,330	27,890	28,075
Obligations under finance leases	57,298	53,767	54,594	50,408
Total	83,140	79,097	82,484	78,483

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposits and short-term bank deposits, trade and notes receivables, trade and bills payables, financial assets included in prepayments and other receivables, financial liabilities included in other payables and accruals, short-term bank borrowings, short-term debentures and short-term bonds approximate to their carrying amounts largely due to the short term maturities of these instruments.

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

4. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Fair value estimation of financial assets and liabilities (cont'd)

Financial instruments not measured at fair value (cont'd)

The fair values of the deposits relating to aircraft held under operating leases included in other non-current assets, long-term borrowings and obligations under finance leases have been measured using significant observable inputs and calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Financial instruments measured at fair value

The Group enters into derivative financial instruments, including forward currency contracts and interest rate swaps with various counterparties, principally financial institutions with high credit ratings.

Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the foreign exchange spot and forward rates and interest rate curves. As at 30 June 2017, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

4. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Fair value estimation of financial assets and liabilities (cont'd)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets and liabilities measured at fair value:

As at 30 June 2017

	Fair value measurement using			Total RMB million (Unaudited)
	Quoted prices in active markets (Level 1) RMB million (Unaudited)	Significant observable inputs (Level 2) RMB million (Unaudited)	Significant unobservable inputs (Level 3) RMB million (Unaudited)	
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts	–	11	–	11
– Interest rate swaps	–	87	–	87
Available-for-sale investments	670	–	–	670
Total	670	98	–	768
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	149	–	149
– Interest rate swaps	–	38	–	38
Total	–	187	–	187

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017**4. FINANCIAL RISK MANAGEMENT (cont'd)****(b) Fair value estimation of financial assets and liabilities (cont'd)****Fair value hierarchy (cont'd)***Assets and liabilities measured at fair value: (cont'd)***As at 31 December 2016**

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1) RMB million (Audited)	Significant observable inputs (Level 2) RMB million (Audited)	Significant unobservable inputs (Level 3) RMB million (Audited)	
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts	–	11	–	11
– Interest rate swaps	–	137	–	137
Available-for-sale investments	538	–	–	538
Total	538	148	–	686
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	11	–	11
– Interest rate swaps	–	47	–	47
Total	–	58	–	58

4. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Fair value estimation of financial assets and liabilities (cont'd)

Fair value hierarchy (cont'd)*Assets and liabilities measured at fair value:* (cont'd)

The fair value of financial instruments traded in active markets was based on quoted market prices at the reporting dates. Available-for-sale investments are listed A share and listed H share stock investments.

The fair values of derivative financial instruments are determined by using valuation techniques. These valuation techniques use applicable models and maximise the use of observable market data where it is available and also use quoted market prices or dealer quotes for reference.

*Assets and liabilities for which fair values are disclosed:***As at 30 June 2017**

	Fair value measurement using			Total RMB million (Unaudited)
	Quoted prices in active markets (Level 1) RMB million (Unaudited)	Significant observable inputs (Level 2) RMB million (Unaudited)	Significant unobservable inputs (Level 3) RMB million (Unaudited)	
Assets				
Deposits relating to aircraft held under operating leases included in other long-term assets	–	216	–	216
Liabilities				
Long-term borrowings	–	25,330	–	25,330
Obligations under finance leases	–	53,767	–	53,767
	–	79,097	–	79,097

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017**4. FINANCIAL RISK MANAGEMENT (cont'd)****(b) Fair value estimation of financial assets and liabilities (cont'd)****Fair value hierarchy (cont'd)***Assets and liabilities for which fair values are disclosed: (cont'd)***As at 31 December 2016**

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1) RMB million (Audited)	Significant observable inputs (Level 2) RMB million (Audited)	Significant unobservable inputs (Level 3) RMB million (Audited)	
Assets				
Deposits relating to aircraft held under operating leases included in other long-term assets	–	258	–	258
Liabilities				
Long-term borrowings	–	28,075	–	28,075
Obligations under finance leases	–	50,408	–	50,408
	–	78,483	–	78,483

5. REVENUES

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

	For the six months ended 30 June	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Traffic revenues		
– Passenger	43,106	39,298
– Cargo and mail	1,777	2,690
Tour operations income	1,070	1,392
Ground service income	701	1,327
Cargo handling and processing income	69	217
Commission income	56	15
Others	1,644	1,396
	48,423	46,335

6. OTHER OPERATING INCOME AND GAINS

	For the six months ended 30 June	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Subsidy income (Note (a))	2,742	2,364
Gain on disposal of property, plant and equipment	2	46
Gain on disposal of lease prepayments	–	3
Gain on disposal of available-for-sale investments	–	95
Dividend income from available-for-sale investments	5	20
Gain on disposal of an associate	12	–
Compensation from ticket sales agents	126	100
Gain on disposal of investment in a subsidiary (Note 20)	1,754	–
Others	125	144
	4,766	2,772

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

6. OTHER OPERATING INCOME AND GAINS (cont'd)

Notes:

- (a) Subsidy income mainly represents (i) subsidies granted by various local governments based on certain amounts of tax paid; (ii) subsidies granted by various local governments and other parties to encourage the Group to operate certain routes to cities where these governments are located.

There are no unfulfilled conditions and other contingencies related to subsidies that were recognised for the six months ended 30 June 2017 and 2016.

7. SEGMENT INFORMATION

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

The Group has one reportable operating segment, reported as "airline transportation operations", which comprises the provision of passenger, cargo, mail delivery, ground service and cargo handling services.

Other services including primarily tour operations, air catering and other miscellaneous services are not included within the airline transportation operations segment, as their internal reports are separately provided to the CODM. The results of these operations are included in the "other segments" column.

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

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the "**PRC Accounting Standards**"), which differ from IFRS in certain aspects. The amount of each material reconciling items from the Group's reportable segment revenues and profit before income tax, arising from different accounting policies are set out in Note 7(c) below.

7. SEGMENT INFORMATION (cont'd)

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

The segment results for the six months ended 30 June 2017 were as follows:

	Airline transportation operations RMB million (Unaudited)	Other segments RMB million (Unaudited)	Eliminations RMB million (Unaudited)	Unallocated* RMB million (Unaudited)	Total RMB million (Unaudited)
Reportable segment revenues from external customers	46,340	1,680	-	-	48,020
Inter-segment sales	-	334	(334)	-	-
Reportable segment revenues	46,340	2,014	(334)	-	48,020
Reportable segment profit before income tax	3,818	46	-	1,915	5,779
Other segment information					
Depreciation and amortisation	6,636	85	-	-	6,721
Impairment charges	9	-	-	-	9
Interest expenses	1,337	117	(50)	-	1,404
Capital expenditure	15,259	184	-	-	15,443

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

7. SEGMENT INFORMATION (cont'd)

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

The segment results for the six months ended 30 June 2016 were as follows:

	Airline transportation operations RMB million (Unaudited)	Other segments RMB million (Unaudited)	Eliminations RMB million (Unaudited)	Unallocated* RMB million (Unaudited)	Total RMB million (Unaudited)
Reportable segment revenues					
from external customers	44,416	1,916	-	-	46,332
Inter-segment sales	108	287	(395)	-	-
Reportable segment revenues	44,524	2,203	(395)	-	46,332
Reportable segment profit before income tax	4,272	92	-	210	4,574
Other segment information					
Depreciation and amortisation	5,903	76	-	-	5,979
Impairment charges	3	-	-	-	3
Interest expenses	1,271	180	(89)	-	1,362
Capital expenditure	15,333	357	-	-	15,690

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

The segment assets and liabilities as at 30 June 2017 and 31 December 2016 were as follows:

	Airline transportation operations RMB million (Unaudited)	Other segments RMB million (Unaudited)	Eliminations RMB million (Unaudited)	Unallocated* RMB million (Unaudited)	Total RMB million (Unaudited)
At 30 June 2017					
Reportable segment assets	216,308	10,644	(6,199)	2,945	223,698
Reportable segment liabilities	166,289	8,611	(6,199)	58	168,759

	Airline transportation operations RMB million (Audited)	Other segments RMB million (Audited)	Eliminations RMB million (Audited)	Unallocated* RMB million (Audited)	Total RMB million (Audited)
At 31 December 2016					
Reportable segment assets	205,024	11,218	(8,896)	2,705	210,051
Reportable segment liabilities	159,437	9,373	(8,896)	41	159,955

- * Unallocated assets primarily represent investments in associates and joint ventures, and available-for-sale investments. Unallocated results primarily represent gain on disposal of investment in a subsidiary, the share of results of associates and joint ventures, income relating to available-for-sale investments and impairment charge on available-for-sale investments.

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

7. SEGMENT INFORMATION (cont'd)

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

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

- 1) Traffic revenue from services within the Mainland China (the PRC excluding the Hong Kong Special Administrative Region ("**Hong Kong**"), Macau Special Administrative Region ("**Macau**") and Taiwan, collectively known as "**Regional**") is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets excluding Regional is classified as international operations.
- 2) Revenue from ticket handling services, ground services, cargo handling service and other miscellaneous services are classified on the basis of where the services are performed.

	For the six months ended	
	30 June	
	2017	2016
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	32,142	29,965
Regional (Hong Kong, Macau and Taiwan)	1,753	1,785
International	14,528	14,585
	48,423	46,335

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Since the Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities by geographic area and hence segment non-current assets and capital expenditure by geographic area are not presented. Except the aircraft, most non-current assets (except financial instruments) are registered and located in the PRC.

7. SEGMENT INFORMATION (cont'd)

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

	Note	For the six months ended 30 June	
		2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Revenues			
Reportable segment revenues		48,020	46,332
– Reclassification of business tax and expired sales in advance of carriage	(i)	403	3
Consolidated revenues		48,423	46,335

	Note	For the six months ended 30 June	
		2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Profit before income tax			
Reportable segment profit		5,779	4,574
– Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	(6)	(3)
Consolidated profit before income tax		5,773	4,571

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017**7. SEGMENT INFORMATION** (cont'd)**(c) Reconciliation of reportable segment revenues, profit, assets and liabilities to the consolidated figures as reported in the consolidated financial statements:** (cont'd)

	<i>Notes</i>	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Assets			
Reportable segment assets		223,698	210,051
– Differences in depreciation charges for aircraft and engines due to different depreciation lives	<i>(ii)</i>	25	31
– Difference in intangible asset arising from the acquisition of Shanghai Airlines	<i>(iii)</i>	2,242	2,242
Consolidated assets		225,965	212,324
Liabilities			
Reportable segment liabilities		168,759	159,955
– Others		3	3
Consolidated liabilities		168,762	159,958

Notes:

- (i) The difference represents the different classification of business tax and expired sales in advance of carriage under the PRC Accounting Standards and IFRS.
- (ii) The difference is attributable to the differences in the useful lives and residual values of aircraft and engines adopted for depreciation purposes in prior years under the PRC Accounting Standards and IFRS. Despite the depreciation policies of these assets which have been unified under IFRS and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which result in the differences in the carrying amounts and related depreciation charges under IFRS and the PRC Accounting Standards.

7. SEGMENT INFORMATION (cont'd)**(c) Reconciliation of reportable segment revenues, profit, assets and liabilities to the consolidated figures as reported in the consolidated financial statements:** (cont'd)*Notes:* (cont'd)

- (iii) The difference represents the different measurement of the fair value of acquisition cost of the shares from Shanghai Airlines between the PRC Accounting standards and IFRS, which results in the different measurement of goodwill.

8. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	RMB million (Unaudited)	RMB million (Unaudited)
Interest on bank borrowings	688	859
Interest relating to obligations under finance leases	827	564
Interest relating to post-retirement benefits	53	47
Interest on bonds and debentures	184	211
Interest relating to interest rate swaps	39	71
Interest relating to bills discounted	18	5
	1,809	1,757
Exchange losses, net (<i>Note (b)</i>)	–	1,355
Less: amounts capitalised into advanced payments on acquisition of aircraft (<i>Note (a)</i>)	(405)	(395)
	1,404	2,717

Notes:

- (a) The weighted average interest rate used for interest capitalization is 3.46% per annum for the six months ended 30 June 2017 (for the six months ended 30 June 2016: 3.44%).
- (b) The exchange losses primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases for the six months ended 30 June 2016.

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

9. INCOME TAX EXPENSE

Income tax charged to profit or loss was as follows:

	For the six months ended 30 June	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Income tax	1,166	925
Deferred taxation	(14)	116
	1,152	1,041

Pursuant to the “Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issues Concerning Relevant Tax Policies for Enhancing the Implementation of Western Region Development Strategy” (Cai Shui [2011] No.58), and other series of tax regulations, enterprises located in the western regions and engaged in the industrial activities as listed in the “Catalogue of Encouraged Industries in Western Regions”, will be entitled to a reduced corporate income tax rate of 15% from 2011 to 2020 upon approval from tax authorities. CEA Yunnan, a subsidiary of the Company, obtained approval from tax authorities and has been entitled to a reduced corporate income tax rate of 15% from 1 January 2011. The Company’s Sichuan branch, Gansu branch and Xibei branch also obtained approvals from respective tax authorities and are entitled to a reduced corporate income tax rate of 15%. The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax rate of 16.5%.

The Company and its subsidiaries except for CEA Yunnan, Sichuan branch, Gansu branch and Xibei branch and those incorporated in Hong Kong, are generally subject to the PRC standard corporate income tax rate of 25% (2016: 25%).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to equity holders of the Company of approximately RMB4,341 million and the weighted average number of shares of 14,467 million in issue during the six months ended 30 June 2017. The Company has no potentially dilutive ordinary shares in issue for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

11. PROFIT APPROPRIATION

No appropriation to the statutory reserves has been made for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil). Such appropriations will be made at year end in accordance with the relevant PRC regulations and the Articles of Association of individual group companies.

12. PROPERTY, PLANT AND EQUIPMENT

	Aircraft, engines and flight equipment RMB million (Unaudited)	Others RMB million (Unaudited)	Total RMB million (Unaudited)
Carrying amount at 1 January 2017	141,913	11,267	153,180
Transfers from advanced payments on acquisition of aircraft (<i>Note 14</i>)	6,761	–	6,761
Other additions	5,842	975	6,817
Depreciation charges	(6,013)	(432)	(6,445)
Transfer to intangible assets (<i>Note 13</i>)	–	(3)	(3)
Transfer to other non-current assets	–	(1)	(1)
Disposal of a subsidiary (<i>Note 20</i>)	(1,419)	(600)	(2,019)
Disposals	(165)	(8)	(173)
Carrying amount at 30 June 2017	146,919	11,198	158,117

	Aircraft, engines and flight equipment RMB million (Unaudited)	Others RMB million (Unaudited)	Total RMB million (Unaudited)
Carrying amount at 1 January 2016	122,962	10,280	133,242
Transfers from advanced payments on acquisition of aircraft (<i>Note 14</i>)	13,644	–	13,644
Other additions	1,868	959	2,827
Depreciation charges	(5,301)	(404)	(5,705)
Transfer to assets classified as held for sale	(11)	–	(11)
Transfer to other non-current assets	–	(8)	(8)
Disposals	(264)	(64)	(328)
Carrying amount at 30 June 2016	132,898	10,763	143,661

Notes to the Interim Condensed Consolidated Financial Information
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13. INTANGIBLE ASSETS

	Goodwill (Note (a)) RMB million (Unaudited)	Computer software RMB million (Unaudited)	Others (Note (b)) RMB million (Unaudited)	Total RMB million (Unaudited)
Carrying amount at 1 January 2017	11,270	288	66	11,624
Transfer from property, plant and equipment (Note 12)	–	3	–	3
Other additions	–	50	–	50
Disposals	–	(1)	–	(1)
Amortisation	–	(54)	(16)	(70)
Disposal of a subsidiary (Note 20)	–	(14)	–	(14)
Carrying amount at 30 June 2017	11,270	272	50	11,592

	Goodwill (Note (a)) RMB million (Unaudited)	Computer software RMB million (Unaudited)	Total RMB million (Unaudited)
Carrying amount at 1 January 2016	11,270	252	11,522
Additions	–	142	142
Disposals	–	–	–
Amortisation	–	(63)	(63)
Carrying amount at 30 June 2016	11,270	331	11,601

Note:

- (a) The balance represents goodwill arising from the acquisition of Shanghai Airlines. Goodwill is attributable to strengthening the competitiveness of the Group's airline transportation operations, attaining synergy through integration of the resources and providing the evolution of Shanghai international air transportation centre. For the purpose of impairment assessment, goodwill was allocated to the CGU that the Group operates and benefits from the acquisition.
- (b) The balance represents the costs incurred to acquire the use right of certain flight schedules (i.e. timeslots for flights' taking off/landing).

14. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

	For the six months ended 30 June	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
At 1 January	23,357	21,207
Additions	8,031	11,929
Interest capitalised (<i>Note 8</i>)	405	395
Transfer to property, plant and equipment (<i>Note 12</i>)	(6,761)	(13,644)
Carrying amount at 30 June	25,032	19,887

15. TRADE AND NOTES RECEIVABLES

The credit terms given to trade customers are determined on an individual basis.

An aged analysis of the trade and notes receivables as at the end of the reporting period, based on the invoice date was as follows:

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Within 90 days	2,381	2,324
91 to 180 days	111	167
181 to 365 days	243	102
Over 365 days	232	182
	2,967	2,775
Provision for impairment of trade and notes receivables	(100)	(115)
	2,867	2,660

Balances with related parties included in trade and notes receivables are summarised in Note 22(c)(i).

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

16. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period was as follows:

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Within 90 days	2,612	2,994
91 to 180 days	136	57
181 to 365 days	57	83
1 to 2 years	74	77
Over 2 years	240	165
	3,119	3,376

Balances with related parties included in trade and bills payables are summarised in Note 22(c)(ii).

17. OBLIGATIONS UNDER FINANCE LEASES

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Within one year	7,123	6,447
In the second year	7,141	6,054
In the third to fifth year inclusive	19,282	18,415
After the fifth year	30,875	30,125
Total	64,421	61,041
Less: amount repayable within one year	(7,123)	(6,447)
Long-term portion	57,298	54,594

18. BORROWINGS

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Non-current		
Long-term borrowings		
– secured	5,357	7,169
– unsecured	3,167	3,435
Guaranteed bonds	8,497	8,476
Unsecured bonds	8,821	8,810
	25,842	27,890
Current		
Current portion of long-term borrowings		
– secured	1,183	1,724
– unsecured	94	135
Short-term bank borrowings		
– unsecured	23,899	9,983
Short-term debentures <i>Note</i>	15,000	17,000
	40,176	28,842
	66,018	56,732

Note:

As at 30 June 2017, the balance represented short-term debentures of RMB15,000 million (31 December 2016: RMB17,000 million) and bore interests at the rates ranging from 2.50% to 4.25% per annum with maturity ranging from 60 days to 270 days.

Notes to the Interim Condensed Consolidated Financial Information
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19. SHARE CAPITAL

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Registered, issued and fully paid of RMB1.00 each		
A shares listed on The Shanghai Stock Exchange ("A Shares")	9,808	9,808
– Tradable shares held by Shanghai Licheng Information Technology Consulting Co., Ltd. with trading moratorium	466	466
– Tradable shares held by China National Aviation Fuel Holding Company with trading moratorium	466	466
– Tradable shares held by China COSCO Shipping Corporation Limited with trading moratorium	233	233
– Tradable shares held by Caitong Fund Management Co., Ltd. with trading moratorium	162	162
– Tradable shares without trading moratorium	8,481	8,481
H shares listed on The Stock Exchange of Hong Kong Limited ("H Shares")		
– Tradable shares without trading moratorium	4,659	4,659
	14,467	14,467

Pursuant to the Company's articles of association, both the listed A shares and listed H shares are registered ordinary shares and carry equal rights.

20. DISPOSAL OF A SUBSIDIARY

On 29 November 2016, the Company entered into Share Purchase Agreement with Eastern Airlines Industry Investment, a wholly-owned subsidiary of CEA Holding, to transfer 100% equity interest in Eastern Logistics, a wholly-owned subsidiary of the Company (“**the Transfer**”). At of 8 February 2017, the Transfer has been completed.

	As at 1 February 2017 RMB million (Unaudited)
Net assets disposed of:	
Intangible assets	14
Property, plant and equipment	2,019
Lease prepayments	305
Other long term assets	429
Deferred tax assets	4
Flight equipment spare parts	59
Trade receivables	1,097
Prepayments and other receivables	670
Cash and cash equivalents	536
Restricted bank deposits	1
Sales in advance of carriage	(124)
Trade payables	(1,915)
Other payables and accruals	(1,090)
Income tax payable	(26)
Obligations under finance leases	(409)
Borrowings	(262)
Provision for return condition checks for aircraft under operating leases	(511)
Other long-term liabilities	(47)
Post-retirement benefit obligations	(158)
Non-controlling interests	87
	679
Gain on disposal of a subsidiary	1,754
Satisfied by Cash:	2,433

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

20. DISPOSAL OF A SUBSIDIARY (cont'd)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	For the six months ended 30 June 2017 RMB million (Unaudited)
Cash consideration	2,433
Cash and bank balances disposed of	(536)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	1,897

21. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments:

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Contracted for:		
– Aircraft, engines and flight equipment (Note)	103,588	123,019
– Other property, plant and equipment	4,775	9,550
– Investments	140	140
	108,503	132,709

Note:

Contracted expenditures for the above aircraft, engines and flight equipment, including deposits prior to delivery, subject to future inflation increase built into the contracts were expected to be paid as follows:

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Within one year	27,380	28,384
In the second year	26,767	32,306
In the third year	21,922	28,983
In the fourth year	15,375	18,334
Over four years	12,144	15,012
	103,588	123,019

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

21. COMMITMENTS (cont'd)

(b) Operating lease commitments

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

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Aircraft, engines and flight equipment		
Within one year	3,842	3,814
In the second year	3,044	3,124
In the third to fifth years, inclusive	7,895	7,616
After the fifth year	8,154	7,605
	22,935	22,159
Land and buildings		
Within one year	239	362
In the second year	127	225
In the third to fifth years, inclusive	106	411
After the fifth year	20	732
	492	1,730
	23,427	23,889

22. RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which directly owns 35.06% of the Company's shares as at 30 June 2017 (2016: 35.06%). In addition, through CES Global Holdings (Hong Kong) Limited and CES Finance Holding Co., Ltd., two wholly-owned subsidiaries of CEA Holding, CEA Holding indirectly owns additional shares of the Company of approximately 18.15% and 3.16% respectively as at 30 June 2017 (2016: 18.15% and 3.16%).

The Company is a state-owned enterprise established in the PRC and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 "Related Party Disclosures", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include CEA Holding and its subsidiaries (other than the Group), other government-related entities and their subsidiaries ("**Other State-owned Enterprises**"), other entities and corporations over which the Company is able to control or exercise significant influence and key management personnel of the Company as well as their close family members.

For the purpose of the related party transaction disclosures, the directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed.

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017**22. RELATED PARTY TRANSACTIONS (cont'd)****(a) Nature of related parties that do not control or controlled by the Group:**

Name of related party	Relationship with the Group
Eastern Air Group Finance Co., Ltd. ("Eastern Air Finance Company")	Associate of the Company
Eastern Aviation Import & Export Co., Ltd. and its subsidiaries ("Eastern Import & Export")	Associate of the Company
Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd. ("Shanghai P&W")	Associate of the Company
Eastern Aviation Advertising Service Co., Ltd. ("Eastern Advertising")	Associate of the Company
Shanghai Collins Aviation Maintenance Service Co., Ltd. ("Collins Aviation")	Associate of the Company
CAE Melbourne Flight Training Pty Limited ("CAE Melbourne")	Joint venture of the Company
Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. ("Wheels & Brakes")	Joint venture of the Company
Shanghai Technologies Aerospace Co., Ltd. ("Technologies Aerospace")	Joint venture of the Company
Eastern China Kaiya System Integration Co., Ltd. ("China Kaiya")	Joint venture of the Company
Shanghai Hute Aviation Technology Co., Ltd. ("Shanghai Hute")	Joint venture of the Company
CEA Development Co., Limited and its subsidiaries ("CEA Development")	Controlled by the same parent company
China Eastern Air Catering Investment Co., Limited and its subsidiaries ("Eastern Air Catering")	Controlled by the same parent company
CES International Financial Leasing Corporation Limited and its subsidiaries ("CES Lease Company")	Controlled by the same parent company
Eastern Air Logistics Co., Ltd. and its subsidiaries ("Eastern Logistics") (Note)	Controlled by the same parent company
Eastern Airlines Industry Investment Company Limited ("Eastern Airlines Industry Investment")	Controlled by the same parent company
TravelSky Technology Limited ("TravelSky")	A director and vice president of the Company is a director of TravelSky
China Aviation Supplies Holding Company and its subsidiaries ("CASC")	A director and vice president of the Company is a director of CASC

22. RELATED PARTY TRANSACTIONS (cont'd)**(a) Nature of related parties that do not control or controlled by the Group: (cont'd)**

Note: Eastern Logistics has become a related party of the Group as it was acquired by Eastern Airlines Industry Investment in February 2017 and ceased to be a subsidiary of the Company.

(b) Related party transactions

Nature of transaction	Related party	Pricing policy and decision process	Income or receipts/ (expense or payments)	
			For the six months ended 30 June	
			2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Supply of food and beverages	Eastern Air Catering	(i)	(556)	(483)
	CEA Development	(i)	(37)	(25)
	Eastern Import & Export	(i)	(22)	(19)
Handling charges for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and flight equipment and repairs for aircraft and engines	Eastern Import & Export	(ii)	(63)	(45)
Repairs and maintenance expense for aircraft and engines	Shanghai P&W	(ii)	(957)	(1,084)
	Technologies Aerospace	(ii)	(135)	(96)
	Shanghai Hute	(ii)	(26)	(82)
	Wheels & Brakes	(ii)	(78)	(40)
Supply of system services	China Kaiya	(ii)	(2)	(56)
Supply of cabin cleaning services	Eastern Advertising	(ii)	(9)	-
Advertising expense	Eastern Advertising	(ii)	(9)	(10)
Media royalty fee	Eastern Advertising	(iii)	7	5

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017**22. RELATED PARTY TRANSACTIONS (cont'd)****(b) Related party transactions (cont'd)**

Nature of transaction	Related party	Pricing policy and decision process	Income or receipts/ (expense or payments) For the six months ended 30 June	
			2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Automobile maintenance service, aircraft maintenance, providing transportation automobile and other products	CEA Development	(ii)	(38)	(37)
Equipment maintenance fee	Collins Aviation	(ii)	(16)	(17)
	CEA Development	(ii)	(22)	(6)
Property management and green maintenance expenses	CEA Development	(ii)	(20)	(20)
Supply of hotel accommodation service	CEA Development	(ii)	(19)	(33)
Interest income on deposits	Eastern Air Finance Company	(iv)	8	14
Interest expense on loans	Eastern Air Finance Company	(iv)	-	(9)
Payments on finance leases	CES Lease Company	(ii)	(664)	(2,428)
Civil aviation information network services	TravelSky	(ii)	(343)	(282)
Flight training fee	CAE Melbourne	(ii)	(28)	-
Land and building rental	CEA Holding	(ii)	(27)	(27)
Disposal of a subsidiary	Eastern Airlines Industry Investment	(v)	2,433	-

22. RELATED PARTY TRANSACTIONS (cont'd)**(b) Related party transactions** (cont'd)

Nature of transaction	Related party	Pricing policy and decision process	Income or receipts/ (expense or payments) For the six months ended 30 June	
			2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Cargo terminal business support services	Eastern Logistics	(i)	(2)	-
Bellyhold space management	Eastern Logistics	(ii)	(44)	-
Transfer of the pilots	Eastern Logistics	(ii)	(7)	-
Freight logistics support services	Eastern Logistics	(iii)	42	-
Flight equipment spare parts maintenance	CASC	(ii)	(67)	-

- (i) The Group's pricing policies on products purchased from related parties are mutually agreed between contract parties.
- (ii) The Group's pricing policies on services provided by related parties are mutually agreed between contract parties.
- (iii) The Group's pricing policies on services provided to related parties are mutually agreed between contract parties.
- (iv) The Group's pricing policies on related party interest rates are mutually agreed based on benchmark interest rates.
- (v) The Group's pricing policies on transfer of equity or disposal of investments are mutually agreed based on the valuation prices.

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

22. RELATED PARTY TRANSACTIONS (cont'd)

(c) Balances with related parties

(i) Amounts due from related parties

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Trade and notes receivables		
Eastern Logistics (<i>Note</i>)	988	–
	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Prepayments and other receivables		
Eastern Import & Export Technologies Aerospace	257	536
Eastern Air Catering	–	16
CEA Holding	125	57
CEA Development	10	–
Others	3	–
	7	7
	402	616

All the amounts due from related parties are trade in nature, interest-free and payable within normal credit terms.

Note:

Under the Management Agreement between the Company and China Cargo Airlines Co., Ltd. (“**China Cargo Airlines**”), a controlled subsidiary of Eastern Logistics, China Cargo Airlines is entrusted to manage the bellyhold space freight business of the Group and shall collect the revenue from the end customers in respect of bellyhold space transportation on behalf of the Company.

22. RELATED PARTY TRANSACTIONS (cont'd)

(c) Balances with related parties (cont'd)

(ii) Amounts due to related parties

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Trade and bills payables		
Eastern Import & Export	185	85
Eastern Air Catering	30	37
Technologies Aerospace	3	45
Wheels & Brakes	11	–
CEA Development	17	19
Collins Aviation	4	2
Shanghai Hute	23	19
CEA Holding	3	3
CASC	23	–
Others	3	4
	302	214

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017**22. RELATED PARTY TRANSACTIONS (cont'd)****(c) Balances with related parties (cont'd)****(ii) Amounts due to related parties (cont'd)**

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Other payables and accruals		
Eastern Import & Export	1,093	240
Eastern Air Catering	221	166
CEA Holding	136	303
TravelSky	386	963
CEA Development	58	72
Technologies Aerospace	100	29
Shanghai P&W	379	324
Shanghai Hute	4	20
Wheels & Brakes	16	26
Eastern Advertising	7	18
CAE Melbourne	357	–
Others	13	5
	2,770	2,166

	30 June 2017	31 December 2016
	RMB million (Unaudited)	RMB million (Audited)
Obligations under finance leases		
CES Lease Company	11,792	5,521

Except for the amounts due to CES Lease Company, which are related to the aircraft under finance leases, all other amounts due to related parties are interest-free and payable within normal credit terms given by trade creditors.

22. RELATED PARTY TRANSACTIONS (cont'd)**(c) Balances with related parties (cont'd)****(iii) Short-term deposits and borrowings with associates and CEA Holding**

	Average interest rate			
	For the six months ended			
	30 June		30 June	31 December
	2017	2016	2017	2016
		RMB million		RMB million
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Short-term deposits (included in cash and cash equivalents)				
Eastern Air Finance Company	0.35%	0.34%	1,658	1,296
Long-term borrowings (included in borrowings)				
CEA Holding	3.48%	–	28	28

(d) Guarantees by the holding company

As at 30 June 2017, bonds of the Group guaranteed by CEA Holding amounted to RMB7.8 billion (2016: RMB7.8 billion).

23. SEASONALITY

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

24. DIVIDEND

The Board has not recommended any dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: It was recommended by the Board that the 2016 interim distribution shall be RMB0.51 per ten shares (inclusive of tax) in cash).

Notes to the Interim Condensed Consolidated Financial Information
For the six months ended 30 June 2017

25. EVENTS AFTER THE REPORTING PERIOD

Up to 29 August 2017, the Company issued two phases of short-term debentures with total principal for RMB6.0 billion and the maturity from 150 days to 270 days to institutional investors in the national interbank bond market. The debentures bear interest at the rate of 4.16% per annum to 4.25% per annum.

Since 3 July 2017, the 1,327,406,822 listed A shares with trading moratorium which were held by Shanghai Licheng Information Technology Consulting Co., Ltd., China National Aviation Fuel Holding Company, China COSCO Shipping Corporation Limited and Caitong Fund Management Co., Ltd. have been listed for trading on the Shanghai Stock Exchange.

Independent Auditor's Report



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To the shareholders of China Eastern Airlines Corporation Limited

(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 97 to 189, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Goodwill impairment testing</i></p> <p>Goodwill as at 31 December 2016 amounted to RMB11,270 million. The Group performed impairment testing on goodwill annually based on the future estimated cash flows of the relevant assets. The Group's impairment assessment of the goodwill requires significant management judgement, in particular in relation to the cash flow forecast and the discount rate applied.</p> <p>The accounting policies and disclosures for goodwill are made in note 2.4, 4 and 17 to the consolidated financial statements.</p>	<p>Our audit procedures included, amongst others, evaluating and testing the assumptions, methodologies, cash-generating unit determination, cash flow forecast and other data/parameters used by the Group in evaluating the goodwill impairment as at 31 December 2016. We compared the growth rate used to extrapolate the cash flows beyond the five-year forecast period to external data. We also involved our internal valuation specialists to assist us in evaluating the assumptions and valuation methodologies used by the Group.</p>
<p><i>Deferred revenue for frequent flyer programmes</i></p> <p>The Group operates frequent flyer programmes that provide travel awards to programme members based on accumulated miles. A portion of passengers' revenue attributable to the award credits of frequent flyer benefits is deferred and recognised when the award credits have been redeemed or have expired. As at 31 December 2016, deferred revenue for frequent flyer programmes totalled RMB1,750 million.</p> <p>The deferment of revenue is calculated based on the estimated fair values of the unredeemed award credits and expected redemption rate. The fair values of the unredeemed award credits is estimated based on the yearly average flight ticket prices and the expected redemption rate is estimated by reference to the historical trends of redemptions. Different judgements or estimates could significantly affect the estimated deferred revenue for frequent flyer programmes and the results of operations.</p> <p>The accounting policies and disclosures for the deferred revenue for frequent flyer programmes are made in note 2.4, 4 and 36 to the consolidated financial statements.</p>	<p>Our audit procedures included, amongst others, evaluating assumptions and methodologies used by the Group to determine the expected redemption rate and the fair value of unredeemed award credits of the frequent flyer programmes as at 31 December 2016. Furthermore, we tested the information technology ("IT") general controls and IT application controls relating to IT applications and environment around frequent flyer programmes. We have further ascertained that the award credits data used in the calculation of the deferred revenue for frequent flyer programmes as at 31 December 2016 was derived from the aforesaid Group's IT applications.</p>

Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Provision for return condition checks for aircraft and engines under operating leases</p> <p>As at 31 December 2016, provision for return condition checks for aircraft and engines under operating leases totalled RMB3,670 million. Under the terms of the operating lease arrangements, the Group is contractually committed to returning the aircraft and engines to the lessors in a certain condition agreed with the lessors at the inception of each lease. The Group estimates costs of these return condition checks and accrues such costs on a straight-line basis over the term of the leases.</p> <p>Provision for the estimated costs of return condition checks for aircraft and engines under operating leases is made based on the estimated costs for such return condition checks and taking into account anticipated flying hours, flying cycle and time frame between each overhaul. These judgements or estimates are based on historical experience on returning similar airframe models, actual costs incurred and aircraft status. Different judgements or estimates could significantly affect the estimated provision for costs of return condition checks.</p> <p>The accounting policies and disclosures are made in note 2.4, 4 and 35 to the consolidated financial statements.</p>	<p>Our audit procedures included, amongst others, evaluating key assumptions and methodologies used by the Group to determine the provision as at 31 December 2016. We tested the integrity and arithmetic accuracy of the provision model through recalculation, reviewing the terms of the operating leases and comparing assumptions to contract terms and the Group's historical experience on returning similar aircraft models and engines and actual costs incurred.</p>

Other Information Included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit and Risk Management Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with the Audit and Risk Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Management Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LEUNG, Wai Lap, Philip.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Revenues	5	98,904	93,969
Other operating income and gains	6	5,469	5,269
Gain on fair value changes of derivative financial instruments	8	2	6
		104,375	99,244
Operating expenses			
Aircraft fuel		(19,626)	(20,312)
Take-off and landing charges		(12,279)	(10,851)
Depreciation and amortisation		(12,154)	(10,471)
Wages, salaries and benefits	9	(18,145)	(16,459)
Aircraft maintenance		(4,960)	(4,304)
Impairment charges	10	(29)	(228)
Food and beverages		(2,862)	(2,469)
Aircraft operating lease rentals		(4,779)	(4,254)
Other operating lease rentals		(868)	(812)
Selling and marketing expenses		(3,133)	(3,651)
Civil aviation development fund		(1,945)	(1,826)
Ground services and other expenses		(5,058)	(5,479)
Indirect operating expenses		(6,051)	(5,503)
Total operating expenses		(91,889)	(86,619)
Operating profit	11	12,486	12,625
Share of results of associates	22	148	126
Share of results of joint ventures	23	39	26
Finance income	12	96	66
Finance costs	13	(6,272)	(7,176)
Profit before income tax		6,497	5,667
Income tax expense	14	(1,542)	(624)
Profit for the year		4,955	5,043
Other comprehensive income for the year			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Cash flow hedges, net of tax	39	107	10
Fair value changes of available-for-sale investments, net of tax		40	87
Fair value changes of available-for-sale investments held by an associate, net of tax	22	(1)	7
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		146	104
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial (losses)/gains on the post-retirement benefit obligations, net of tax	37	(410)	196
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		(410)	196
Other comprehensive income, net of tax		(264)	300
Total comprehensive income for the year		4,691	5,343

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Profit attributable to:			
Equity holders of the Company		4,498	4,537
Non-controlling interests		457	506
Profit for the year		4,955	5,043
Total comprehensive income attributable to:			
Equity holders of the Company		4,237	4,834
Non-controlling interests		454	509
Total comprehensive income for the year		4,691	5,343
Earnings per share attributable to the equity holders of the Company during the year			
– Basic and diluted (RMB)	15	0.33	0.35

Consolidated Statement of Financial Position

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2016

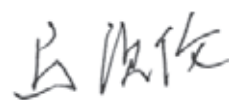
	Notes	31 December 2016 RMB million	31 December 2015 RMB million
Non-current assets			
Intangible assets	17	11,624	11,522
Property, plant and equipment	18	153,180	133,242
Investment properties	19	321	294
Lease prepayments	20	2,064	2,094
Advanced payments on acquisition of aircraft	21	23,357	21,207
Investments in associates	22	1,536	1,543
Investments in joint ventures	23	524	518
Available-for-sale investments	24	645	452
Other non-current assets	25	2,969	3,754
Deferred tax assets	38	79	243
Derivative financial instruments	39	137	45
		196,436	174,914
Current assets			
Flight equipment spare parts	26	2,248	2,056
Trade and notes receivables	27	2,660	2,867
Prepayments and other receivables	28	9,231	8,446
Derivative financial instruments	39	11	–
Restricted bank deposits and short-term bank deposits	29	43	35
Cash and cash equivalents	30	1,695	9,080
Assets classified as held for sale	16	–	594
		15,888	23,078
Current liabilities			
Sales in advance of carriage		7,677	5,841
Trade and bills payables	31	3,376	3,712
Other payables and accruals	32	20,250	19,057
Current portion of obligations under finance leases	33	6,447	6,109
Current portion of borrowings	34	28,842	38,214
Income tax payable		304	169
Current portion of provision for return condition checks for aircraft under operating leases	35	1,175	1,281
Derivative financial instruments	39	11	4
		68,082	74,387
Net current liabilities		(52,194)	(51,309)
Total assets less current liabilities		144,242	123,605

Consolidated Statement of Financial Position

(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2016

	Notes	31 December 2016 RMB million	31 December 2015 RMB million
Non-current liabilities			
Obligations under finance leases	33	54,594	46,290
Borrowings	34	27,890	28,498
Provision for return condition checks for aircraft under operating leases	35	2,495	2,222
Other long-term liabilities	36	3,874	3,990
Post-retirement benefit obligations	37	2,890	2,569
Deferred tax liabilities	38	86	8
Derivative financial instruments	39	47	97
		91,876	83,674
Net assets			
		52,366	39,931
Equity			
Equity attributable to the equity holders of the Company			
– Share capital	41	14,467	13,140
– Reserves	42	34,983	24,271
		49,450	37,411
Non-controlling interests			
		2,916	2,520
Total equity			
		52,366	39,931

The financial statements were approved by the Board of Directors on 30 March 2017 and were signed on its behalf.


Liu Shaoyong
Director

Ma Xulun
Director

Consolidated Statement of Changes in Equity

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2016

	Attributable to equity holders of the Company				Non-controlling interests RMB million	Total equity RMB million
	Share capital	Other reserves	Retained profits	Subtotal		
	RMB million	RMB million	RMB million	RMB million		
Balance at 1 January 2015	12,674	16,485	815	29,974	1,797	31,771
Profit for the year	–	–	4,537	4,537	506	5,043
Other comprehensive income	–	297	–	297	3	300
Total comprehensive income for the year	–	297	4,537	4,834	509	5,343
Issue of shares (Note 41)	466	2,389	–	2,855	–	2,855
Acquisition of non-controlling interests	–	(252)	–	(252)	252	–
Dividends paid to non-controlling interests	–	–	–	–	(38)	(38)
Transfer from retained profits	–	184	(184)	–	–	–
Balance at 31 December 2015	13,140	19,103*	5,168*	37,411	2,520	39,931
Profit for the year	–	–	4,498	4,498	457	4,955
Other comprehensive income	–	(261)	–	(261)	(3)	(264)
Total comprehensive income for the year	–	(261)	4,498	4,237	454	4,691
Issue of shares (Note 41)	1,327	7,213	–	8,540	–	8,540
Interim 2016 dividend	–	–	(738)	(738)	–	(738)
Dividends paid to non-controlling interests	–	–	–	–	(58)	(58)
Transfer from retained profits	–	144	(144)	–	–	–
Balance at 31 December 2016	14,467	26,199*	8,784*	49,450	2,916	52,366

* These reserve accounts comprise the consolidated reserves of RMB34,983 million (2015: RMB24,271 million) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared in accordance with International Financial Reporting Standards)

For the year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Cash flows from operating activities			
Cash generated from operations	45(a)	26,154	25,535
Income tax paid		(1,261)	(1,210)
Net cash flows from operating activities		24,893	24,325
Cash flows from investing activities			
Additions to property, plant and equipment		(21,533)	(8,609)
Additions to lease prepayments		(86)	(82)
Additions to intangible assets	17	(232)	(109)
Advanced payments on acquisition of aircraft		(16,864)	(24,772)
Proceeds from disposal of assets classified as held for sale		518	4,227
Proceeds from disposal of property, plant and equipment		690	1,294
Proceeds from disposal of lease prepayments		56	47
(Increase)/decrease in restricted and short-term bank deposits		(1)	3
Increase in shareholding in associates		–	(413)
Gain on disposal of an associate		12	–
Interest received		96	66
Dividends received		164	92
Proceeds from disposal of interest in a subsidiary		–	49
Repayment of loans from an associate		–	372
Proceeds from disposal of interests in available-for-sale investments		–	35
Net cash flows used in investing activities		(37,180)	(27,800)
Cash flows from financing activities			
Proceeds from issue of shares		8,540	2,855
Proceeds from draw-down of short-term bank loans		39,159	26,916
Repayments of short-term debentures		(46,000)	(10,000)
Repayments of short-term bank loans		(36,728)	(34,767)
Proceeds from issuance of short-term debentures		47,500	21,500
Proceeds from issuance of long-term bonds		12,526	–
Proceeds from draw-down of long-term bank loans and other financing activities		26,545	24,572
Repayments of long-term bank loans		(28,803)	(10,540)
Repayments of long-term bonds		(5,497)	–
Principal repayments of finance lease obligations		(8,606)	(6,350)
Interest paid		(3,206)	(3,065)
Dividends paid		(738)	–
Dividends paid to non-controlling interests of subsidiaries		(58)	(38)
Net cash flows from financing activities		4,634	11,083
Net (decrease)/increase in cash and cash equivalents		(7,653)	7,608
Cash and cash equivalents at beginning of year		9,080	1,355
Effect of foreign exchange rate changes		268	117
Cash and cash equivalents at 31 December	30	1,695	9,080

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1. Corporate and Group Information

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

In the opinion of the directors, the holding company and ultimate holding company of the Company is China Eastern Air Holding Company ("CEA Holding"), a state-owned enterprise established in the PRC.

The A shares, H shares and American Depositary Shares are listed on the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and The New York Stock Exchange, respectively.

These financial statements were approved and authorised for issue by the Company's Board of Directors (the "Board") on 30 March 2017.

Information about subsidiaries

Particulars of the Company's principal subsidiaries at the end of the reporting period are as follows:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital million	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Eastern Airlines Jiangsu Co., Limited ("CEA Jiangsu")	PRC 7 April 1993	RMB2,000	62.56%	–	Provision of airline services
China Eastern Airlines Wuhan Co., Limited ("CEA Wuhan")	PRC 16 August 2002	RMB1,750	60%	–	Provision of airline services
Shanghai Eastern Flight Training Co., Limited ("Shanghai Flight Training")	PRC 18 December 1995	RMB694	100%	–	Provision of flight training services
Shanghai Airlines Co., Limited ("Shanghai Airlines")	PRC 16 March 2010	RMB500	100%	–	Provision of airline services
China Cargo Airlines Co., Limited ("China Cargo")	PRC 22 July 1998	RMB3,000	–	83%	Provision of cargo carriage service
China Eastern Airlines Technology Co., Limited ("Eastern Technology")	PRC 19 November 2014	RMB4,300	100%	–	Provision of airline maintenance services
Shanghai Eastern Airlines Logistics Co., Limited ("Eastern Logistics")	PRC 23 August 2004	RMB1,150	100%	–	Provision of cargo logistics services
China Eastern Business Jet Co., Limited	PRC 27 September 2008	RMB50	100%	–	Provision of airlines consultation services

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1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital million	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Eastern Airlines Yunnan Co., Limited ("CEA Yunnan")	PRC 2 August 2011	RMB3,662	90.36%	–	Provision of airline services
Eastern Air Overseas (Hong Kong) Co., Limited ("Eastern Air Overseas")	Hong Kong 10 June 2011	HKD280	100%	–	Provision of import and export, investment, leasing and consultation services
China United Airlines Co., Limited ("China United Airlines")	PRC 21 September 1984	RMB1,320	100%	–	Provision of airline services
Eastern Airlines Hotel Co., Limited	PRC 18 March 1998	RMB70	100%	–	Provision of hotel services primarily to crew
Shanghai Airlines Tours International (Group) Co., Limited ("Shanghai Airlines Tours")	PRC 29 August 1992	RMB50	100%	–	Tour operations, travel and air ticketing agency and transportation
China Eastern Airlines Application Development Center Co., Limited ("Application Development Center")	PRC 21 November 2011	RMB498	100%	–	Provision of research and development of technology and products in the field of aviation
China Eastern Airlines E-Commerce Co., Limited ("Eastern E-Commerce")	PRC 1 December 2014	RMB50	100%	–	E-commerce platform and ticket agent

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All of the subsidiaries of the Company listed above are limited liability companies.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

2.1 Basis of Preparation (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Going concern

As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB52.19 billion. In preparing the financial statements, the Board conducts a detailed review over the Group's going concern ability based on the current financial situation. The Board has considered the Group's available sources of funds as follows:

- The Group's expected net cash inflows from operating activities in 2017;
- Unutilised banking facilities of approximately RMB46.38 billion as at 31 December 2016; and
- Other available sources of financing from banks and other financial institutions given the Group's credit history.

The Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements for the upcoming twelve months. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

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2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012–2014 Cycle</i>	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27 and certain amendments included in *Annual Improvements 2012–2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

- (a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in IAS 1;
 - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
 - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
 - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.
- Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.
- (b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.
- (c) *Annual Improvements to IFRSs 2012–2014 Cycle* sets out amendments to a number of IFRSs. Details of the amendments are as follows:
- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no significant impact on the Group's financial statements.

2.3 Issued But Not Yet Effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	<i>Financial Instruments</i> ¹
IFRS 15	<i>Revenue from Contracts with Customers</i> ¹
IFRS 16	<i>Leases</i> ²
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ⁴
Amendments to IAS 7	<i>Disclosure Initiative</i> ⁴
Amendments to IAS 40	<i>Transfers to Investment Property</i> ¹
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ⁵
Amendments to IFRSs	<i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i> ⁶

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018.

⁶ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the International Accounting Standards Board (“IASB”) issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group’s financial assets.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs and entities may use a full retrospective approach or modified retrospective approach upon adoption. The Group expects to adopt IFRS 15 on 1 January 2018 and plans to adopt the modified retrospective approach. Under the new standard, the adoption may have an impact on the allocation method to account for frequent flyer programmes, which would impact the balance of the frequent flyer liability. The Group is currently evaluating other possible impacts from the new standard on the Group’s financial statements.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. For lessee accounting, the standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For lessor accounting, the standard substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects to adopt IFRS 16 on 1 January 2019. Management is still assessing the impact on the financial performance and position of the Group resulting from the adoption of IFRS 16 for the annual period beginning on 1 January 2019. Based on the Group’s undiscounted operating lease commitment of RMB23,889 million as set out in Note 46 to the financial statements, the adoption is expected to have an impact on the financial position and financial performance of the Group and the detailed assessment is still in progress.

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
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2.3 Issued But Not Yet Effective International Financial Reporting Standards (continued)

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017. Based on the preliminary analysis, the Group anticipates that the adoption of IAS 12 in the future is unlikely to have significant impact on the Group's financial statements.

2.4 Summary of Significant Accounting Policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Segmental reporting

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

Foreign currencies

(i) Functional currency

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

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within "finance income" or "finance costs".

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Revenue recognition and sales in advance of carriage

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

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(i) Traffic revenues

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

(ii) Ground service income and tour operation revenues

Revenues from the provision of ground services, tour, travel services and other travel related services are recognised when the services are rendered.

(iii) Cargo handling income

Revenues from the provision of cargo handling services are recognised when the services are rendered.

(iv) Commission income

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

(v) Other revenue

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

(vi) Frequent flyer programmes

The Group operates frequent flyer programmes that provide travel awards to programme members based on accumulated miles. A portion of passengers' revenue attributable to the award of frequent flyer benefits is deferred and recognised when the miles have been redeemed or have expired.

(vii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

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2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition and sales in advance of carriage (continued)

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Maintenance and overhaul costs

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

In respect of aircraft and engines owned by the Group or held under finance leases, overhaul costs that meet specific recognition criteria are capitalised as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles.

All other repairs and maintenance costs are charged to profit or loss as and when incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Intangible assets

(i) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(ii) Computer software costs

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

(iii) Others

Others relate to the capitalised costs incurred to acquire the use right of certain flight schedules (i.e. timeslots for flights' taking off/landing) in Guangzhou Baiyun International Airport Co., Limited and Shanghai Pudong International Airport, respectively. These costs are amortised using the straight-line method over their useful lives of 3 years.

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2.4 Summary of Significant Accounting Policies (continued)

Deferred pilot recruitment costs

Deferred pilot recruitment costs represent the costs borne by the Group in connection with securing a certain minimum period of employment of pilots and are amortised on a straight-line basis over the anticipated beneficial period of 5 years, starting from the date the pilot joins the Group.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group;
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Owned and finance leased aircraft and engines	15 to 20 years
Other flight equipment, including rotables	10 years
Buildings	8 to 45 years
Other property, plant and equipment	3 to 20 years

Gains and losses on disposals are determined by comparing the proceeds with the assets' carrying amounts and are recognised in profit or loss.

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. After initial recognition, the Group chooses the cost model to measure all of its investment properties.

Depreciation is calculated on the straight-line basis to write off the cost to its residual value over its estimated useful life. The estimated useful lives are as follows:

Buildings	30 to 35 years
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The carrying amounts of investment properties measured using the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

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2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Lease prepayments

Lease prepayments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Advanced payments on acquisition of aircraft

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

Flight equipment spare parts

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

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition and sales in advance of carriage" above.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other operating income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in impairment charges for receivables.

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2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the other reserves until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other operating income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the other reserves to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as finance income and dividend income, respectively and are recognised in profit or loss as other operating income in accordance with the policies set out for "Revenue recognition and sales in advance of carriage" above.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to impairment charges in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities primarily include trade and other payables, derivative financial instruments and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including assets similar in nature to cash, which are not restricted as to use.

2.4 Summary of Significant Accounting Policies (continued)

Provisions

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

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

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

For the contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, the present obligation under the contract is recognised and measured as a provision.

Leases

(i) As lessee

Finance leases

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

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

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

Operating leases

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

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognised immediately in profit or loss, except to the extent that any profit or loss is compensated for by future lease payments at above or below the market value, then the profit or loss is deferred and amortised over the period for which the asset is expected to be used.

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2.4 Summary of Significant Accounting Policies (continued)

Leases (continued)**(ii) As lessor**

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

Retirement benefits**(i) Defined contribution plans**

The Group participates in schemes regarding pension and medical benefits for employees organised by the municipal governments of the relevant provinces. Contributions to these schemes are expensed as incurred.

The Group also implemented an additional defined contribution pension benefit scheme (annuity) for voluntary eligible employees. Contributions are made based on a percentage of the employees' total salaries and are charged to profit or loss as incurred.

(ii) Defined benefit plan

The Group provides eligible retirees with certain post-retirement benefits including retirement subsidies, transportation allowance as well as other welfare. The defined post-retirement benefits are unfunded. The cost of providing benefits under the post-retirement benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the post-retirement benefit plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Wages, salaries and benefits" and "Finance costs" in profit or loss:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense

Derivative financial instruments and hedge accounting**Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

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

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2.4 Summary of Significant Accounting Policies (continued)

Dividend distribution

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

Fair value measurement

The Group measures its derivative financial instruments and listed equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

3. Financial Risk Management

(a) Financial risk factors

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

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

Foreign currency risk

The Group operates its business in many countries and territories. The Group generates its revenue in different currencies, and its foreign currency liabilities at the end of the period are much higher than its foreign currency assets. The Group's major liability item (mainly resulting from purchases of aircraft) is mainly priced and settled in foreign currencies, primarily USD. The Group is exposed to currency risks from fluctuations in various foreign currency exchange rates against RMB.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

In addition, fluctuations in foreign currency exchange rates will affect the Group's future costs for purchases of aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports.

The Group entered into certain foreign exchange forward contracts to manage part of these foreign currency risks. As at 31 December 2016, the foreign exchange forward contracts at notional value were RMB3,052 million. Details of foreign currency forward contracts are disclosed in Note 39 to the financial statements.

The following tables detail the Group's exposure to major currency risk at the reporting dates:

	2016			
	USD RMB million	EUR RMB million	JPY RMB million	KRW RMB million
Trade and other receivables	1,575	99	10	152
Cash and cash equivalents	702	39	15	–
Deposits relating to aircraft under operating leases	140	–	–	–
Other non-current assets	267	–	–	–
Trade and other payables	(123)	–	(2)	(1)
Obligations under finance leases	(44,913)	–	(326)	–
Borrowings	(7,953)	(4,215)	–	(1,008)

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3. Financial Risk Management (continued)

(a) Financial risk factors (continued)

Foreign currency risk (continued)

	2015			
	USD RMB million	EUR RMB million	JPY RMB million	KRW RMB million
Trade and other receivables	1,684	92	16	112
Cash and cash equivalents	7,755	56	36	–
Deposits relating to aircraft under operating leases	145	–	–	–
Other non-current assets	322	–	–	–
Trade and other payables	(124)	–	(3)	–
Obligations under finance leases	(50,342)	–	(344)	–
Borrowings	(36,943)	–	–	–

The following tables indicate the approximate change in the Group's consolidated statement of profit or loss and other comprehensive income in response to a 1% appreciation or depreciation of the RMB against the following major currencies at the reporting dates:

	2016		2015	
	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million
If RMB(weakens)/strengthens against the US dollars	(377)/377	23/(23)	(581)/581	–
If RMB(weakens)/strengthens against the Euro	(31)/31	–	1/(1)	–
If RMB(weakens)/strengthens against the Japanese Yen	(2)/2	–	(2)/2	–
If RMB(weakens)/strengthens against KRW	(6)/6	–	–	–

Interest rate risk

The Group's interest rate risk primarily arises from borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings and finance leases issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the proportion of borrowings and finance leases issued at variable rates and fixed rates based on the market environment.

The Group's finance department has been monitoring the level of interest rates. The increase in the interest rates will increase the interest costs of borrowings and finance leases issued at variable rates, which will further impact the performance of the Group. To hedge against the variability in the cash flows arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in Notes 34 and 39(a) to the financial statements.

Notes to the Financial Statements

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3. Financial Risk Management (continued)

(a) Financial risk factors (continued)

Interest rate risk (continued)

The following tables detail the interest rate profiles of the Group's interest-bearing financial instruments at the reporting dates:

	2016 RMB million	2015 RMB million
Floating rate instruments		
Cash and cash equivalents	1,695	9,080
Restricted bank deposits and short-term bank deposits	43	35
Borrowings	(15,419)	(34,823)
Obligations under finance leases	(61,041)	(52,399)
Interest rate swap at notional amount	11,352	9,474
Cross currency swap at notional amount	–	244

	2016 RMB million	2015 RMB million
Fixed rate instruments		
Borrowings	(41,313)	(31,889)
Interest rate swap at notional amount	–	48

The following table indicates the approximate change in the Group's profit or loss and other comprehensive income, taking the interest rate swap into consideration, if interest rate had been 25 basis points higher with all other variables held constant:

	2016		2015	
	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million
Floating rate instruments	(140)	21	(148)	18

Fuel price risk

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a major expense component for the Group. Aircraft fuel accounted for approximately 21% of the Group's operating expenses (2015: 23%).

As at 31 December 2016, the Group had no open crude oil option contracts.

For the year ended 31 December 2016, if fuel price had been 5% higher/lower with all other variables held constant, the Group's fuel cost would have been RMB981 million higher/lower (2015: RMB1,016 million higher/lower).

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
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3. Financial Risk Management (continued)

(a) Financial risk factors (continued)

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, deposits and derivative financial instruments with banks and financial institutions, as well as credit exposures to sales agents.

A significant portion of the Group's air tickets is sold by sales agents participating in the Billing and Settlements Plan ("BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB922 million as at 31 December 2016 (2015: approximately RMB752 million). The credit risk exposure to BSP agents and the remaining trade and notes receivables are maintained by the Group on an on-going basis and the allowance for impairment of doubtful debts is within management's expectations.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other reputable banks and finance institutions. The Group also deposits cash and cash equivalents in an associate financial institution owned by its holding company (Note 47(c)(iii)). Management does not expect any loss to arise from non-performance by these banks and the financial institution.

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

Liquidity risk

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

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB million	1 and 2 years RMB million	2 and 5 years RMB million	Over 5 years RMB million	Total RMB million
At 31 December 2016					
Borrowings	30,262	5,670	14,961	10,813	61,706
Derivative financial instruments	11	33	8	6	58
Obligations under finance leases	8,123	7,526	21,905	33,277	70,831
Trade, bills and other payables	16,318	–	–	–	16,318
Total	54,714	13,229	36,874	44,096	148,913

	Less than 1 year RMB million	1 and 2 years RMB million	2 and 5 years RMB million	Over 5 years RMB million	Total RMB million
At 31 December 2015					
Borrowings	39,794	11,067	9,477	10,873	71,211
Derivative financial instruments	4	–	58	39	101
Obligations under finance leases	7,377	7,101	19,183	25,167	58,828
Trade, bills and other payables	15,433	–	–	–	15,433
Total	62,608	18,168	28,718	36,079	145,573

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3. Financial Risk Management (continued)

(b) Capital risk management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. The debt ratios at 31 December 2016 and 2015 were as follows:

	2016 RMB million	2015 RMB million
Total liabilities	159,958	158,061
Total assets	212,324	197,992
Debt ratio	0.75	0.80

(c) Fair value estimation of financial assets and liabilities**Financial instruments not measured at fair value**

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, were as follows:

	2016		2015	
	Carrying amounts RMB million	Fair values RMB million	Carrying amounts RMB million	Fair values RMB million
Financial assets				
Deposits relating to aircraft held under operating leases included in other non-current assets	285	258	338	316
Financial liabilities				
Long-term borrowings	27,890	28,075	28,498	28,088
Obligations under finance leases	54,594	50,408	46,290	43,626
Total	82,484	78,483	74,788	71,714

Notes to the Financial Statements

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3. Financial Risk Management (continued)

(c) Fair value estimation of financial assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposits and short-term bank deposits, trade and notes receivables, trade and bills payables, financial assets included in prepayments and other receivables, financial liabilities included in other payables and accruals, short-term bank borrowings and short-term guaranteed bonds approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the deposits relating to aircraft held under operating leases included in other non-current assets, long-term borrowings and obligations under finance leases have been measured using significant observable inputs and calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Financial instruments measured at fair value

The Group enters into derivative financial instruments, including forward currency contracts and interest rate swaps with various counterparties, principally financial institutions with high credit ratings.

Derivative financial instruments are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the foreign exchange spot and forward rates and interest rate curves. As at 31 December 2016, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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3. Financial Risk Management (continued)

(c) Fair value estimation of financial assets and liabilities (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets and liabilities measured at fair value:

As at 31 December 2016	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts (Note 39(b))	–	11	–	11
– Interest rate swaps (Note 39(a))	–	137	–	137
Available-for-sale financial assets	538	–	–	538
Total	538	148	–	686
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts (Note 39(b))	–	11	–	11
– Interest rate swaps (Note 39(a))	–	47	–	47
Total	–	58	–	58

As at 31 December 2015	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts (Note 39(b))	–	16	–	16
– Interest rate swaps (Note 39(a))	–	22	–	22
– Cross currency swaps (Note 39(c))	–	7	–	7
Available-for-sale financial assets	317	–	–	317
Total	317	45	–	362
Liabilities				
Derivative financial instruments				
– Interest rate swaps (Note 39(a))	–	101	–	101

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
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3. Financial Risk Management (continued)

(c) Fair value estimation of financial assets and liabilities (continued)

Fair value hierarchy (continued)*Assets and liabilities measured at fair value: (continued)*

The fair value of financial instruments traded in active markets was based on quoted market prices at the reporting dates. Available-for-sale investments are listed A share and listed H share stock investments.

The fair values of derivative financial instruments are determined by using valuation techniques. These valuation techniques use applicable models and maximise the use of observable market data where it is available and also use quoted market prices or dealer quotes for reference.

Assets and liabilities for which fair values are disclosed:

As at 31 December 2016	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Assets				
Deposits relating to aircraft held under operating leases included in other long-term assets	–	258	–	258
Liabilities				
Long-term borrowings	–	28,075	–	28,075
Obligations under finance leases	–	50,408	–	50,408
Total	–	78,483	–	78,483

As at 31 December 2015	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Assets				
Deposits relating to aircraft held under operating leases included in other long-term assets	–	316	–	316
Liabilities				
Long-term borrowings	–	28,088	–	28,088
Obligations under finance leases	–	43,626	–	43,626
Total	–	71,714	–	71,714

4. Critical Accounting Estimates and Judgements

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

(a) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2.4 to the financial statements. Unused tickets are recognised in traffic revenues based on current estimates. Management periodically evaluates the balance in the SIAC and records any adjustments, which can be material, in the period the evaluation is completed.

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

(b) Frequent flyer programmes

The Group operates frequent flyer programmes that provide travel awards to programme members based on accumulated miles. A portion of passengers' revenue attributable to the award credits of frequent flyer benefits is deferred and recognised when the award credits have been redeemed or have expired. The deferment of revenue is calculated based on the estimated fair values of the unredeemed award credits and expected redemption rate. The fair values of the unredeemed award credits is estimated based on the yearly average flight ticket prices and the expected redemption rate is estimated by reference to the historical trends of redemptions. Different judgements or estimates could significantly affect the estimated deferred revenue for frequent flyer programmes and the results of operations.

(c) Provision for return condition checks for aircraft and engines under operating leases

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

(d) Retirement benefits

The Group operates and maintains a defined retirement benefit plan which provides eligible retirees with benefits including retirement subsidies, transportation allowance as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognised over the employee's service period by utilising various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2.4 to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and etc.. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions.

Additional information regarding the retirement benefit plan is disclosed in Note 37 to the financial statements.

Notes to the Financial Statements

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4. Critical Accounting Estimates and Judgements (continued)

(e) Deferred income tax

In assessing the amount of deferred tax assets that need to be recognised in accordance with the accounting policy stated in Note 2.4 to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of deductible tax losses carried forward in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

(f) Provision for flight equipment spare parts

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realisable value. The net realisable value is estimated based on current market condition, historical experience and the Company's future operation plan for the aircraft and related spare parts. The net realisable value may be adjusted significantly due to the change of market condition and the future plan for the aircraft and related spare parts.

(g) Depreciation of property, plant and equipment

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

Except for components related to engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

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

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2.4 to the financial statements. The recoverable amount of the cash-generating unit has been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometres yield level, load factor, aircraft utilisation rate and discount rates.

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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5. Revenues

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

	2016 RMB million	2015 RMB million
Traffic revenues	89,554	85,076
– Passenger	83,577	78,585
– Cargo and mail	5,977	6,491
Tour operations income	3,113	3,491
Ground service income	2,850	2,546
Cargo handling and processing income	794	750
Commission income	92	78
Others	2,501	2,028
	98,904	93,969

6. Other Operating Income and Gains

	2016 RMB million	2015 RMB million
Subsidy income (Note (a))	4,531	4,131
Gain on disposal of property, plant and equipment	158	399
Gain on disposal of lease prepayments	3	1
Gain on disposal of available-for-sale investments (Note 24)	95	33
Dividend income from available-for-sale investments	28	13
Gain on disposal of an associate	12	–
Compensation from ticket sales agents	228	248
Gain on disposal of investments in a subsidiary	–	41
Others (Note (b))	414	403
	5,469	5,269

Notes:

- (a) Subsidy income mainly represents (i) subsidies granted by various local governments based on certain amounts of tax paid; (ii) subsidies granted by various local governments and other parties to encourage the Group to operate certain routes to cities where these governments are located.

There are no unfulfilled conditions and other contingencies related to subsidies that were recognised for the years ended 31 December 2016 and 2015.

- (b) Others mainly represent compensation from transfer of the pilots.

Notes to the Financial Statements

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7. Segment Information

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

The Group has one reportable operating segment, reported as "airline transportation operations", which comprises the provision of passenger, cargo, mail delivery, ground service and cargo handling services.

Other services including primarily tour operations, air catering and other miscellaneous services are not included within the airline transportation operations segment, as their internal reports are separately provided to the CODM. The results of these operations are included in the "other segments" column.

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

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the "PRC Accounting Standards"), which differ from IFRSs in certain aspects. The amount of each material reconciling items from the Group's reportable segment revenue and profit or loss, arising from different accounting policies are set out in Note 7(c) below.

The segment results for the year ended 31 December 2016 were as follows:

	Airline transportation RMB million	Other operations segments RMB million	Eliminations RMB million	Unallocated*	Total RMB million
Reportable segment revenue from external customers	94,338	4,222	–	–	98,560
Inter-segment sales	–	782	(782)	–	–
Reportable segment revenue	94,338	5,004	(782)	–	98,560
Reportable segment profit before income tax	5,788	397	–	322	6,507
Other segment information					
Depreciation and amortisation	12,378	160	–	–	12,538
Impairment charges	22	7	–	–	29
Interest income	100	100	(104)	–	96
Interest expenses	2,553	280	(104)	–	2,729
Capital expenditure	34,631	776	–	–	35,407

Notes to the Financial Statements

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7. Segment Information (continued)

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

The segment results for the year ended 31 December 2015 were as follows:

	Airline transportation RMB million	Other operations segments RMB million	Eliminations RMB million	Unallocated*	Total RMB million
Reportable segment revenue from external customers	89,013	4,831	–	–	93,844
Inter-segment sales	555	468	(1,023)	–	–
Reportable segment revenue	89,568	5,299	(1,023)	–	93,844
Reportable segment profit before income tax	5,327	238	–	106	5,671
Other segment information					
Depreciation and amortisation	10,727	128	–	–	10,855
Impairment charges	93	1	–	134	228
Interest income	69	13	(16)	–	66
Interest expenses	1,935	270	(16)	–	2,189
Capital expenditure	37,706	591	–	–	38,297

The segment assets and liabilities as at 31 December 2016 and 31 December 2015 were as follows:

	Airline transportation RMB million	Other operations segments RMB million	Eliminations RMB million	Unallocated*	Total RMB million
At 31 December 2016					
Reportable segment assets	205,024	11,218	(8,896)	2,705	210,051
Reportable segment liabilities	159,437	9,373	(8,896)	41	159,955
At 31 December 2015					
Reportable segment assets	189,408	12,045	(8,282)	2,538	195,709
Reportable segment liabilities	156,041	10,260	(8,282)	39	158,058

* Unallocated assets primarily represent investments in associates and joint ventures, and available-for-sale investments. Unallocated results primarily represent the share of results of associates and joint ventures, income relating to available-for-sale investments and impairment charge on available-for-sale investments.

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7. Segment Information (continued)

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

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

- 1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong"), the Macau Special Administrative Region ("Macau") and Taiwan, (collectively known as "Regional")) is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets excluding Regional is classified as international operations.
- 2) Revenue from ticket handling services, ground services, cargo handling service and other miscellaneous services are classified on the basis of where the services are performed.

	2016 RMB million	2015 RMB million
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	63,730	61,222
Regional (Hong Kong, Macau and Taiwan)	3,516	3,569
International	31,658	29,178
Total	98,904	93,969

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Since the Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities by geographic area and hence segment non-current assets and capital expenditure by geographic area are not presented. Except the aircraft, most non-current assets (except financial instruments) are registered and located in the PRC.

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

	Note	2016 RMB million	2015 RMB million
Revenue			
Reportable segment revenue		98,560	93,844
– Reclassification of business tax and expired sales in advance of carriage	(i)	344	125
Consolidated revenue		98,904	93,969

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7. Segment Information (continued)

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

	Note	2016 RMB million	2015 RMB million
Profit before income tax			
Reportable segment profit		6,507	5,671
– Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	(10)	(4)
Consolidated profit before income tax		6,497	5,667

	Note	2016 RMB million	2015 RMB million
Assets			
Reportable segment assets		210,051	195,709
– Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	31	41
– Difference in intangible asset arising from the acquisition of Shanghai Airlines	(iii)	2,242	2,242
Consolidated assets		212,324	197,992

		2016 RMB million	2015 RMB million
Liabilities			
Reportable segment liabilities		159,955	158,058
– Others		3	3
Consolidated liabilities		159,958	158,061

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7. Segment Information (continued)

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

Notes:

- (i) The difference represents the different classification of business tax and expired sales in advance of carriage under the PRC Accounting Standards and IFRSs.
- (ii) The difference is attributable to the differences in the useful lives and residual values of aircraft and engines adopted for depreciation purposes in prior years under the PRC Accounting Standards and IFRSs. Despite the depreciation policies of these assets have been unified under IFRSs and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which result in the differences in the carrying amounts and related depreciation charges under IFRSs and the PRC Accounting Standards.
- (iii) The difference represents the different measurement of the fair value of acquisition cost of the shares from Shanghai Airlines between the PRC Accounting standards and IFRSs, which results in the different measurement of goodwill.

8. Gain on Fair Value Changes of Derivative Financial Instruments

	2016 RMB million	2015 RMB million
Interest rate swap contracts (Note 39(a))	2	6

9. Wages, Salaries and Benefits

	2016 RMB million	2015 RMB million
Wages, salaries, bonus and allowances	14,431	12,917
Employee welfare and benefits	235	436
Pension and medical insurance (Note 37(a) & (b))	2,375	2,042
Staff housing fund (Note (a))	868	817
Staff housing allowances (Note (b))	236	247
	18,145	16,459

Notes:

(a) Staff housing fund

In accordance with the relevant PRC housing regulations, the Group is required to contribute to the state-sponsored housing fund for its employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits.

(b) Staff housing allowances

The Group also provides staff housing allowances in cash to eligible employees. The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation or retirement, his or her entitlement would cease and any unpaid entitlement related to past service up to the date of resignation or retirement would be paid.

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9. Wages, Salaries and Benefits (continued)

Notes (continued):

(c) Emoluments of directors and supervisors

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, together with the remuneration of supervisors, is as follows:

2016

	Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Executive Directors			
Liu Shaoyong*	—	—	—
Ma Xulun*	—	—	—
Xu Zhao*	—	—	—
Gu Jiadan*	—	—	—
Li Yangmin*	—	—	—
Tang Bing*	—	—	—
Tian Liuwen*	—	—	—
Independent non-executive Directors			
Li Ruoshan	160	—	160
Ji Weidong****	—	—	—
Shao Ruiqing	160	—	160
Ma Weihua	160	—	160
Cai Hongping*****	100	—	100
Supervisors			
Yu Faming*&*****	—	—	—
Xi Sheng*	—	—	—
Xu Haihua*****	288	—	288
Feng Jinxiong	535	—	535
Ba Shengji*	—	—	—
Hu Jidong*****	426	—	426
Jia Shaojun*&*****	—	—	—
Total	1,829	—	1,829

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9. Wages, Salaries and Benefits (continued)

Notes (continued):

(c) Emoluments of directors and supervisors (continued)

2015

	Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Executive Directors			
Liu Shaoyong*	–	–	–
Ma Xulun	401	–	401
Xu Zhao*	–	–	–
Gu Jiadan*	–	–	–
Li Yangmin	365	–	365
Tang Bing	358	–	358
Tian Liuwen***	419	–	419
Independent non-executive Directors			
Liu Keya**	72	–	72
Ji Weidong****	–	–	–
Shao Ruiqing***	60	–	60
Li Ruoshan	120	–	120
Ma Weihua	120	–	120
Supervisors			
Yu Faming*	–	–	–
Xi Sheng*	–	–	–
Xu Haihua***	298	–	298
Feng Jinxiong	610	–	610
Ba Shengji*	–	–	–
Total	2,823	–	2,823

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

** Mr. Liu Keya retired during the year ended 31 December 2015.

*** These directors and supervisors of the Company were newly appointed during the year ended 31 December 2015.

**** Mr. Ji Weidong has filed his retirement during the year ended 31 December 2015 and has fulfilled his responsibility until new director being appointed by the board in June 2016.

***** These directors and supervisors of the Company were newly appointed during the year ended 31 December 2016.

***** Mr. Yu Faming retired during the year ended 31 December 2016.

***** Mr. Xu Haihua retired during the year ended 31 December 2016.

There were no directors and supervisors waived their emoluments during the year (2015: Nil).

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9. Wages, Salaries and Benefits (continued)

Notes (continued):

(d) Five highest paid individuals

None of the Company's directors and supervisors was among the five highest paid individuals in the Group for the year ended 31 December 2016 (2015: Nil). The emoluments payable to the five highest paid individuals were as follows:

	2016 RMB'000	2015 RMB'000
Wages, salaries, bonus and allowances	9,319	8,104

The number of five highest paid individuals whose emoluments fell within the following bands is as follows:

	Number of individuals	
	2016	2015
HK\$1,500,001 to HK\$2,000,000	–	5
HK\$2,000,001 to HK\$2,500,000	5	–
	5	5

10. Impairment Charges

	2016 RMB million	2015 RMB million
Impairment charge on flight equipment spare parts	10	88
Impairment charge on property, plant and equipment	29	48
Impairment charge on interests in associates	–	33
Impairment charge on available-for-sale investments	–	100
Reversal of impairment charge of trade and other receivables	(10)	(41)
	29	228

Notes to the Financial Statements

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11. Operating Profit

Operating profit is stated after charging the following items:

	2016 RMB million	2015 RMB million
Amortisation of intangible assets	129	85
Depreciation of property, plant and equipment		
– owned	6,388	5,350
– leased (finance leases)	5,563	4,972
Depreciation of investment properties	11	4
Amortisation of long-term deferred assets included in other non-current assets	394	388
Amortisation of lease prepayments	63	60
Consumption of flight equipment spare parts	1,198	974
Auditors' remuneration	18	17

12. Finance Income

	2016 RMB million	2015 RMB million
Interest income	96	66

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13. Finance Costs

	2016 RMB million	2015 RMB million
Interest on bank borrowings	1,529	1,613
Interest relating to obligations under finance leases	1,349	867
Interest relating to post-retirement benefit obligations	88	114
Interest on bonds and debentures	360	483
Interest relating to interest rate swaps	122	128
	3,448	3,205
Exchange losses, net (Note (b))	3,573	4,987
Less: amounts capitalised into advanced payments on acquisition of aircraft (Note (a))	(749)	(1,014)
amounts capitalised into construction in progress (Note (a))	—	(2)
	6,272	7,176

Notes:

- (a) The average interest rate used for interest capitalisation was 3.25% per annum for the year ended 31 December 2016 (2015: 3.09%).
- (b) The exchange losses were primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases.

14. Income Tax Expense

Income tax charged to profit or loss was as follows:

	2016 RMB million	2015 RMB million
Income tax	1,396	737
Deferred taxation (Note 38)	146	(113)
	1,542	624

Pursuant to the "Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issues Concerning Relevant Tax Policies for Enhancing the Implementation of Western Region Development Strategy" (Cai Shui [2011] No.58), and other series of tax regulations, enterprises located in the western regions and engaged in the industrial activities as listed in the "Catalogue of Encouraged Industries in Western Regions", will be entitled to a reduced corporate income tax rate of 15% from 2011 to 2020 upon approval from tax authorities. CEA Yunnan, a subsidiary of the Company, obtained approval from tax authorities and has been entitled to a reduced corporate income tax rate of 15% from 1 January 2011. The Company's Sichuan branch, Gansu branch and Xibei branch also obtained approvals from respective tax authorities and are entitled to a reduced corporate income tax rate of 15%. The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax rate of 16.5% (2015:16.5%).

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14. Income Tax Expense (continued)

The Company and its subsidiaries except for CEA Yunnan, Sichuan branch, Gansu branch and Xibei branch and those incorporated in Hong Kong, are generally subject to the PRC standard corporate income tax rate of 25% (2015: 25%).

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, are as follows:

	2016 RMB million	2015 RMB million
Profit before income tax	6,497	5,667
Tax calculated at the tax rate of 25% (2015: 25%)	1,624	1,417
Lower tax rates enacted by local authority	(102)	(156)
Share of results of associates and joint ventures	(47)	(38)
Expenses not deductible for tax	117	104
Utilisation of previously unrecognised tax losses	(51)	(1)
Unrecognised tax losses for the year	13	20
Utilisation of/unrecognised deductible temporary differences	(4)	(722)
Research and development costs' super deduction	(8)	-
Tax charge	1,542	624
Effective tax rate	23.73%	11.01%

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended 31 December 2016 and 2015, as there are avoidance of double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to the aviation business.

15. Earnings Per Share

The calculation of basic earnings per share was based on the profit attributable to equity holders of the Company of RMB4,498 million (2015: RMB4,537 million) and the weighted average number of shares of 13,811,136,000 (2015: 12,818,509,000) in issue during the year ended 31 December 2016. The Company had no potentially dilutive options or other instruments relating to the ordinary shares in issue during the years ended 31 December 2016 and 2015.

16. Assets Classified as Held for Sale

The Group entered into several agreements with third parties to dispose of certain aircraft and related engines. As at 31 December 2015, the aircraft and engines were stated at the lower of carrying amount (RMB594 million) and their fair value less cost to sell (RMB622 million). In 2016, all the aircraft and engines were disposed and there were no aircraft and engines recognised as assets classified as held for sale as at 31 December 2016.

Notes to the Financial Statements

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17. Intangible Assets

	Goodwill (Note(a)) RMB million	Computer software RMB million	Others (Note(b)) RMB million	Total RMB million
Cost				
At 1 January 2015	11,270	574	–	11,844
Additions	–	109	–	109
Disposals	–	(4)	–	(4)
At 31 December 2015	11,270	679	–	11,949
Additions	–	133	98	231
Disposals	–	–	–	–
At 31 December 2016	11,270	812	98	12,180
Accumulated amortisation				
At 1 January 2015	–	344	–	344
Charge for the year	–	85	–	85
Disposals	–	(2)	–	(2)
At 31 December 2015	–	427	–	427
Charge for the year	–	97	32	129
Disposals	–	–	–	–
At 31 December 2016	–	524	32	556
Net book amount				
At 31 December 2015	11,270	252	–	11,522
At 31 December 2016	11,270	288	66	11,624

Notes:

- (a) The balance represents goodwill arising from the acquisition of Shanghai Airlines. Goodwill is attributable to strengthening the competitiveness of the Group's airline transportation operations, attaining synergy through integration of the resources and providing the evolution of Shanghai international air transportation centre. For the purpose of impairment assessment, goodwill was allocated to the cash-generating unit ("CGU") that the Group operates and benefits from the acquisition.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on a financial budget approved by senior management. The discount rate applied to the cash flow projections is 13% (2015: 13%). The growth rate used to extrapolate the cash flows of the above cash-generating unit beyond the five-year period is 3% (2015: 3%), which does not exceed the long-term average growth rate for the business in which the CGU operates. No impairment for the goodwill was required based on the value-in-use calculation as at the reporting date.

- (b) The balance represents the costs incurred to acquire the use right of certain flight schedules (i.e. timeslots for flights' taking off/landing).

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18. Property, Plant and Equipment

	Aircraft, engines and flight equipment			Other property, plant and equipment RMB million	Construction in progress RMB million	Total RMB million
	Owned RMB million	Held under finance leases RMB million	Buildings RMB million			
Cost						
At 1 January 2016	80,402	89,146	7,993	7,486	1,771	186,798
Transfer from construction in progress	–	–	474	328	(802)	–
Transfer from advanced payments on acquisition of aircraft (Note 21)	12,236	4,354	–	–	–	16,590
Additions	9,411	4,485	5	651	1,477	16,029
Transfer from owned aircraft, engines and flight equipment	(7,398)	7,398	–	–	–	–
Transfer from aircraft, engines and flight equipment held under finance leases	7,245	(7,245)	–	–	–	–
Transfer to investment properties (Note 19)	–	–	(58)	–	–	(58)
Transfer to other non-current assets	–	–	–	–	(48)	(48)
Disposals	(2,243)	(1,074)	(90)	(264)	–	(3,671)
At 31 December 2016	99,653	97,064	8,324	8,201	2,398	215,640
Accumulated depreciation						
At 1 January 2016	28,195	17,921	2,266	4,697	–	53,079
Charge for the year	5,561	5,563	273	554	–	11,951
Transfer from owned aircraft, engines and flight equipment	(352)	352	–	–	–	–
Transfer from aircraft, engines and flight equipment held under finance leases	3,038	(3,038)	–	–	–	–
Transfer to investment properties (Note 19)	–	–	(20)	–	–	(20)
Disposals	(1,858)	(1,016)	(69)	(52)	–	(2,995)
At 31 December 2016	34,584	19,782	2,450	5,199	–	62,015
Impairment						
At 1 January 2016	362	108	–	7	–	477
Charge for the year	29	–	–	–	–	29
Disposals	(61)	–	–	–	–	(61)
At 31 December 2016	330	108	–	7	–	445
Net book amount						
At 31 December 2016	64,739	77,174	5,874	2,995	2,398	153,180
At 1 January 2016	51,845	71,117	5,727	2,782	1,771	133,242

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18. Property, Plant and Equipment (continued)

During the year, the Group recognised an impairment loss of approximately RMB29 million relating to aircraft, engines and flight equipment (2015: RMB48 million). The recoverable amounts of these impaired aircraft, engines and flight equipment are determined at the higher of their fair value less costs to sell and value in use.

As at 31 December 2016, certain aircraft and buildings owned by the Group with an aggregate net carrying amount of approximately RMB17,559 million (2015: approximately RMB29,147 million) were pledged as collateral under certain borrowing arrangements (Note 34).

As at 31 December 2016, the ownership certificates of buildings with a net carrying amount of RMB1,455 million (31 December 2015: RMB1,514 million) have not been obtained. The directors of the Company are of the opinion that the Group legally owns and has the rights to use the aforesaid property, plant and equipment, and that there is no material adverse impact on the overall financial position of the Group.

	Aircraft, engines and flight equipment		Buildings RMB million	Other property, plant and equipment RMB million	Construction in progress RMB million	Total RMB million
	Owned RMB million	Held under finance leases RMB million				
Cost						
At 1 January 2015	71,456	67,571	8,236	7,001	2,116	156,380
Transfer from construction in progress	–	–	112	269	(381)	–
Transfer from advanced payments on acquisition of aircraft (Note 21)	9,615	15,224	–	–	–	24,839
Additions	3,770	6,752	57	413	929	11,921
Transfer to assets classified as held for sale	(783)	–	–	–	–	(783)
Transfer to investment properties (Note 19)	–	–	(344)	–	–	(344)
Transfer to other non-current assets	–	–	–	–	(881)	(881)
Disposals	(3,656)	(401)	(68)	(197)	(12)	(4,334)
At 31 December 2015	80,402	89,146	7,993	7,486	1,771	186,798
Accumulated depreciation						
At 1 January 2015	26,804	13,253	2,013	4,430	–	46,500
Charge for the year	4,565	5,061	325	371	–	10,322
Transfer to assets classified as held for sale	(292)	–	–	–	–	(292)
Transfer to investment properties (Note 19)	–	–	(46)	–	–	(46)
Disposals	(2,882)	(393)	(26)	(104)	–	(3,405)
At 31 December 2015	28,195	17,921	2,266	4,697	–	53,079
Impairment						
At 1 January 2015	326	108	–	7	–	441
Charge for the year	48	–	–	–	–	48
Disposals	(12)	–	–	–	–	(12)
At 31 December 2015	362	108	–	7	–	477
Net book amount						
At 31 December 2015	51,845	71,117	5,727	2,782	1,771	133,242
At 1 January 2015	44,326	54,210	6,223	2,564	2,116	109,439

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19. Investment Properties

	2016 RMB million	2015 RMB million
Cost		
At 1 January	344	–
Transfer from property, plant and equipment (Note 18)	58	344
At 31 December	402	344
Accumulated depreciation		
At 1 January	(50)	–
Transfer from property, plant and equipment (Note 18)	(20)	(46)
Charge for the year	(11)	(4)
At 31 December	(81)	(50)
Net book amount		
At 31 December	321	294

As at 31 December 2016, the fair value of the investment properties was RMB604 million (2015: RMB497 million) according to a valuation performed by an independent professionally qualified valuer.

The investment properties are leased to third parties and related parties under operating leases. Rental income totalling RMB37 million (2015: RMB30 million) was received by the Group during the year in respect of the leases.

As at 31 December 2016, the carrying amount of the investment properties for which the ownership certificates of buildings have not been obtained was RMB119 million (2015: RMB120 million). The directors of the Company are of the opinion that the Group legally owns and has the rights to use the aforesaid investment properties, and that there is no material adverse impact on the overall financial position of the Group.

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19. Investment Properties (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

As at 31 December 2016

	Quoted prices in active markets (Level 1) RMB million	Fair value measurement using		Total RMB million
		Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Not measured at fair value but fair value is disclosed:				
Buildings	–	–	604	604

As at 31 December 2015

	Quoted prices in active markets (Level 1) RMB million	Fair value measurement using		Total RMB million
		Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Not measured at fair value but fair value is disclosed:				
Buildings	–	–	497	497

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Valuation techniques	Significant unobservable inputs	Range or weighted average		
		2016	2015	
Buildings – Plant	Discounted cash flow method	Estimated rental value (per s.q.m. and per month)	RMB11 to RMB154	RMB11 to RMB154
		Rent growth (p.a.)	2% to 6%	2% to 6%
		Long term vacancy rate	0% to 5%	0% to 5%
		Discount rate	4% to 6%	4% to 6%
Buildings – Office	Market comparison method	Selling price (per s.q.m.)	RMB19,000 to RMB55,556	RMB14,699 to RMB37,000

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20. Lease Prepayments

	2016 RMB million	2015 RMB million
Carrying amount at 1 January	2,094	2,206
Recognised during the year	(30)	(112)
Carrying amount at 31 December	2,064	2,094

Lease prepayments represent unamortised prepayments for land use rights.

21. Advanced Payments on Acquisition of Aircraft

	2016 RMB million	2015 RMB million
At 1 January	21,207	20,260
Additions	17,991	24,772
Interest capitalised (Note 13)	749	1,014
Transfer to property, plant and equipment (Note 18)	(16,590)	(24,839)
At 31 December	23,357	21,207

22. Investments in Associates

	2016 RMB million	2015 RMB million
Unlisted investments, cost	1,069	1,266
Share of net assets	467	277
	1,536	1,543

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22. Investments in Associates (continued)

The movements in investments in associates were as follows:

	2016 RMB million	2015 RMB million
At 1 January	1,543	1,086
Additions	–	413
Share of results of associates	148	126
Share of revaluation on available-for-sale investments held by an associate	(1)	7
Provision for impairment	–	(33)
Dividend declared during the year	(154)	(56)
At 31 December	1,536	1,543

Particulars of the principal associates, which are limited liability companies, are as follows:

Company name	Place of establishment and operation and date of establishment	Registered capital		Attributable equity interest		Principal activities
		2016 Million	2015 Million	2016	2015	
Eastern Air Group Finance Co., Limited ("Eastern Air Finance Company")	PRC 6 December 1995	RMB2,000	RMB2,000	25%	25%	Provision of financial services to group companies of CEA Holding
China Eastern Air Catering Investment Co., Limited	PRC 17 November 2003	RMB350	RMB350	45%	45%	Provision of air catering services
Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Limited ("Shanghai P&W") (Note)	PRC 28 March 2008	USD40	USD40	51%	51%	Provision of aircraft, engine and other related components maintenance services
New Shanghai International Tower Co., Limited	PRC 17 November 1992	RMB167	RMB167	20%	20%	Property development provision and management services
Eastern Aviation Import & Export Co., Limited ("Eastern Import & Export")	PRC 9 June 1993	RMB80	RMB80	45%	45%	Provision of aviation equipment and spare parts purchase
Eastern Aviation Advertising Service Co., Limited ("Eastern Advertising")	PRC 4 March 1986	RMB200	RMB200	45%	45%	Provision of aviation advertising agency services
Shanghai Collins Aviation Maintenance Service Co., Limited ("Collins Aviation")	PRC 27 September 2002	USD7	USD7	35%	35%	Provision of airline electronic product maintenance services

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22. Investments in Associates (continued)

Note:

In 2008, the Company entered into an agreement with United Technologies International Corporation ("Technologies International") to establish Shanghai P&W. Shanghai P&W has registered capital of approximately USD40 million in which the Company holds a 51% interest. According to the shareholder's agreement, Technologies International has the power to govern the financial and operating policies and in this respect the Company accounts for Shanghai P&W as an associate.

The following table illustrates the aggregate financial information of the Group's associates that were not individually material:

	2016 RMB million	2015 RMB million
Share of the associates' profit for the year	148	126
Share of the associates' other comprehensive income	(1)	7
Share of the associates' total comprehensive income	147	133
Aggregate carrying amount of the Group's interests in the associates	1,536	1,543

23. Investments in Joint Ventures

	2016 RMB million	2015 RMB million
Unlisted investments, cost	352	352
Share of net assets	172	166
	524	518

The movements in investments in joint ventures were as follows:

	2016 RMB million	2015 RMB million
At 1 January	518	505
Share of results	39	26
Dividend declared during the year	(33)	(13)
At 31 December	524	518

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23. Investments in Joint Ventures (continued)

Particulars of the principal joint ventures, which are limited liability companies, are as follows:

Company name	Place of establishment and operation and date of establishment	Paid-up capital		Attributable equity interest		Principal activities
		2016 Million	2015 Million	2016	2015	
Shanghai Technologies Aerospace Co., Limited ("Technologies Aerospace") (Note)	PRC 28 September 2004	USD73	USD73	51%	51%	Provision of repair and maintenance services
Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Limited ("Wheels & Brakes")	PRC 28 December 1995	USD2	USD2	40%	40%	Provision of spare parts repair and maintenance services
Eastern China Kaiya System Integration Co., Limited ("China Kaiya")	PRC 21 May 1999	RMB10	RMB10	41%	41%	Provision of computer systems development and maintenance services
CAE Melbourne Flight Training Pty Limited ("CAE Melbourne")	Australia 9 March 2007	AUD11	AUD11	50%	50%	Provision of flight training services
Shanghai Hute Aviation Technology Co., Limited ("Shanghai Hute")	PRC 9 April 2003	RMB30	RMB30	50%	50%	Provision of equipment maintenance services

Note:

Under a joint venture agreement with a joint venture partner of Technologies Aerospace dated 10 March 2003, the Company has agreed to share the control over the economic activities of Technologies Aerospace. Any strategic financial and operating decisions relating to the activities of Technologies Aerospace require the unanimous consent of the Company and the joint venture partner.

The following table illustrates the aggregate financial information of the Group's joint ventures that were not individually material:

	2016 RMB million	2015 RMB million
Share of the joint ventures' profit for the year	39	26
Share of the joint ventures' total comprehensive income	39	26
Aggregate carrying amount of the Group's interests in the joint ventures	524	518

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24. Available-for-sale Investments

	2016 RMB million	2015 RMB million
Listed equity investments, at fair value (Note (a))	538	317
Unlisted equity investments, at cost (Note (b))	107	135
	645	452

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB100 million (2015: RMB122 million).

The above investments consist of investments in equity securities which were designated as available-for-sale investments and have no fixed maturity dates or coupon rates.

Notes:

- (a) In March 2016, Shanghai Pudong Development Bank Co., Limited issued 6,846,637 RMB-denominated ordinary shares (A Shares) by way of non-public issuance to the Company in exchange of the Company's equity interest in Shanghai International Trust Corp., Limited. The closing price of the shares of the day was 17.84 per share, resulting in an increase in listed equity investments, at fair value of RMB122 million, a decrease in unlisted equity investments, at cost of RMB27 million and a gain on disposal of RMB95 million was recorded.
- (b) As at 31 December 2016, certain unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

25. Other Non-Current Assets

	2016 RMB million	2015 RMB million
Deposits relating to aircraft held under operating leases	285	338
Deferred pilot recruitment costs	1,182	1,243
Rebate receivables on aircraft acquisitions	83	974
Rental prepayment	426	450
Prepayment for acquisition of property, plant and equipment	299	156
Other long term assets	694	593
	2,969	3,754

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26. Flight Equipment Spare Parts

	2016 RMB million	2015 RMB million
Flight equipment spare parts	2,713	2,597
Less: provision for spare parts	(465)	(541)
	2,248	2,056

Movements in the Group's provision for impairment of flight equipment spare parts were as follows:

	2016 RMB million	2015 RMB million
At 1 January	541	665
Accrual (Note 10)	10	88
Provision written off in relation to disposal of spare parts	(86)	(212)
At 31 December	465	541

27. Trade and Notes Receivables

The credit terms given to trade customers are determined on an individual basis.

	2016 RMB million	2015 RMB million
Trade receivables	2,630	2,867
Notes receivable	30	-
At 31 December	2,660	2,867

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27. Trade and Notes Receivables (continued)

An aged analysis of the trade and notes receivables as at the end of the reporting period, based on the invoice date was as follows:

	2016 RMB million	2015 RMB million
Within 90 days	2,324	2,608
91 to 180 days	167	105
181 to 365 days	102	90
Over 365 days	182	280
	2,775	3,083
Provision for impairment of trade and notes receivables	(115)	(216)
	2,660	2,867

Trade and notes receivables that were neither overdue nor impaired relate to a large number of independent sales agents for whom there was no recent history of default.

As at 31 December 2016, trade and notes receivables of RMB267 million (2015: RMB267 million) were past due but not impaired. The Group holds cash deposits of RMB764 million (2015: RMB540 million) from these agents. The ageing analysis of these trade and notes receivables was as follows:

	2016 RMB million	2015 RMB million
Past due:		
Within 90 days	167	213
91 to 180 days	30	28
181 to 365 days	70	26
	267	267

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27. Trade and Notes Receivables (continued)

Movements in the Group's provision for impairment of trade and notes receivables were as follows:

	2016 RMB million	2015 RMB million
At 1 January	216	206
Receivables written off during the year as uncollectible	(100)	(2)
(Reversal of)/impairment of losses recognised	(1)	12
At 31 December	115	216

Included in the above provision for impairment of trade and notes receivables is a provision for individually impaired trade receivables of RMB66 million (2015: RMB156 million) with a carrying amount before provision of RMB66 million (2015: RMB156 million).

The remaining impaired trade and notes receivables of RMB258 million as at 31 December 2016 relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The net impacts of creation and release of provisions for impaired receivables have been included in "impairment charges" in profit or loss (Note 10). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

28. Prepayments and Other Receivables

	2016 RMB million	2015 RMB million
Value added tax recoverable	1,746	2,226
Prepaid corporate income tax	283	413
Advance to suppliers	2,327	379
Prepaid aircraft operating lease rentals	382	346
Dividend receivable	–	22
Rebate receivables on aircraft acquisitions	1,489	1,610
Rental deposits	233	278
Amounts due from related parties (Note 47(c)(i))	616	139
Deposits relating to aircraft held under operating leases	140	145
Others	2,215	3,127
Subtotal	9,431	8,685
Provision for impairment of other receivables	(200)	(239)
	9,231	8,446

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29. Restricted Bank Deposits and Short-Term Bank Deposits

	2016 RMB million	2015 RMB million
Bank deposits with original maturity over a year	3	2
Restricted bank deposits	40	33
	43	35

30. Cash and Cash Equivalents

	2016 RMB million	2015 RMB million
Cash	3	5
Bank balances	1,692	9,075
	1,695	9,080

At the end of the reporting period, the cash and cash equivalents balances of the Group denominated in RMB amounted to RMB814 million (2015: RMB1,013 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks and financial institutions with no recent history of default.

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31. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the end of the reporting period was as follows:

	2016 RMB million	2015 RMB million
Within 90 days	2,994	2,060
91 to 180 days	57	348
181 to 365 days	83	461
1 to 2 years	77	414
Over 2 years	165	429
	3,376	3,712

As at 31 December 2016, trade and bills payable balances included amounts due to related parties of RMB214 million (2015: RMB897 million) (Note 47(c)(ii)).

As at 31 December 2016, bills payable amounted to RMB1,120 million (2015: 800 million).

32. Other Payables and Accruals

	2016 RMB million	2015 RMB million
Salaries, wages and benefits	3,662	3,602
Take-off and landing charges	2,323	2,302
Fuel cost	1,774	878
Expenses related to aircraft overhaul conducted	1,253	1,703
Advance from customers	966	1,059
Duties and levies payable	1,507	2,077
Other accrued operating expenses	1,561	2,255
Deposits received from ticket sales agents	764	841
Current portion of other long-term liabilities (Note 36)	635	515
Staff housing allowance	363	420
Amounts due to related parties (Note 47(c)(ii))	2,166	1,305
Current portion of post-retirement benefit obligations (Note 37(c))	173	181
Others	3,103	1,919
	20,250	19,057

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33. Obligations Under Finance Leases

As at 31 December 2016, the Group had 226 aircraft (2015: 213 aircraft) under finance leases. Under the terms of the leases, the Group has the option to purchase, at or near the end of the lease terms, certain aircraft at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US dollars.

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

	Minimum lease payments 2016 RMB million	Present values of minimum lease payments 2016 RMB million	Minimum lease payments 2015 RMB million	Present values of minimum lease payments 2015 RMB million
Within one year	8,123	6,447	7,377	6,109
In the second year	7,526	6,054	7,101	5,942
In the third to fifth years, inclusive	21,905	18,415	19,183	16,679
After the fifth year	33,277	30,125	25,167	23,669
Total	70,831	61,041	58,828	52,399
Less: amount repayable within one year	(8,123)	(6,447)	(7,377)	(6,109)
Long-term portion	62,708	54,594	51,451	46,290

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34. Borrowings

	2016 RMB million	2015 RMB million
Non-current		
Long-term bank borrowings		
– secured (Note (a))	7,169	14,766
– unsecured	3,435	5,642
Guaranteed bonds (Note (b))	8,476	8,090
Unsecured bonds (Note (b))	8,810	–
	27,890	28,498
Current		
Current portion of long-term bank borrowings		
– secured (Note (a))	1,724	2,609
– unsecured	135	10,369
Short-term bank borrowings		
– unsecured	9,983	7,537
Short-term debentures (Note (c))	17,000	15,500
Guaranteed bonds (Note (b))	–	2,199
	28,842	38,214
Total borrowings	56,732	66,712
The borrowings are repayable as follows:		
Within one year	28,842	38,214
In the second year	4,833	10,306
In the third to fifth years inclusive	13,281	8,224
After the fifth year	9,776	9,968
Total borrowings	56,732	66,712

Notes:

- (a) As at 31 December 2016, the secured bank borrowings of the Group were pledged by the related aircraft and buildings with an aggregate carrying amount of RMB17,559 million (2015: RMB29,147 million) (Note 18).

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34. Borrowings (continued)

Notes: (continued)

- (b) On 18 March 2013, the Company issued ten-year guaranteed bonds with a principal amount of RMB4.8 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 5.05% per annum, which are payable annually. The principal of the bonds will mature and be repayable on 18 March 2023. CEA Holding has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (Note 47(d)).

On 15 June 2016, the Company issued three-year medium-term bonds with a principal amount of RMB3 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 3.15% per annum, which are payable annually. The principal of the bonds will mature and become repayable on 15 June 2019.

On 14 July 2016, the Company issued five-year medium-term bonds with a principal amount of RMB4 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 3.39% per annum, which are payable annually. The principal of the bonds will mature and become repayable on 14 July 2021.

On 20 July 2016, the Company issued three-year medium-term bonds with a principal amount of RMB1.5 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 3.00% per annum, which are payable annually. The principal of the bonds will mature and become repayable on 20 July 2019.

On 28 September 2016, the Company issued three-year guaranteed notes with a principal amount of KRW120 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 2.05% per annum, which are payable semi-annually. The principal of the bonds will mature and become repayable on 28 September 2019. Korean Development Bank has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

On 28 September 2016, the Company issued three-year notes with a principal amount of KRW55 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 2.85% per annum, which are payable semi-annually. The principal of the bonds will mature and become repayable on 28 September 2019.

On 24 October 2016, the Company issued ten-year corporate bonds with a total principal amount of RMB3 billion, of which bonds of RMB1.5 billion bear interest at the rate of 3.03% per annum and the remaining bonds of RMB1.5 billion bear interest at the rate of 3.30% per annum. The bonds are payable annually. The principal of the bonds will mature and become repayable on 24 October 2026. CEA Holding has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (Note 47(d)).

- (c) On 20 April 2016, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 270 days. The debentures bear interest at the rate of 2.80% per annum.

On 8 June 2016, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 270 days. The debentures bear interest at the rate of 2.80% per annum.

On 21 September 2016, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 270 days. The debentures bear interest at the rate of 2.58% per annum.

On 20 October 2016, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 270 days. The debentures bear interest at the rate of 2.50% per annum.

On 2 November 2016, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 176 days. The debentures bear interest at the rate of 2.81% per annum.

On 8 November 2016, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 178 days. The debentures bear interest at the rate of 2.81% per annum.

On 10 November 2016, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 180 days. The debentures bear interest at the rate of 2.81% per annum.

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34. Borrowings (continued)

The terms of the long-term borrowings were summarised as follows:

Interest rate and final maturities		2016	2015
		RMB million	RMB million
Long-term bank borrowings			
RMB denominated	interest rates ranging from 3.40% to 4.41% with final maturities through 2021 (2015: 5.75% to 5.90%)	3,278	280
USD denominated	interest rates ranging from 6 month libor +0.75% to 6 months libor +3.75% with final maturities through 2025 (2015: 6 months libor +0.50% to 6 months libor +3.75%)	4,970	33,106
EUR denominated	interest rates at 3 months Euribor+0.5% with final maturities through 2026 (2015:Nil)	4,215	–
Guaranteed bonds			
RMB denominated	interest rates ranging from 3.03% to 5.05% with final maturities through 2026 (2015: 3.88% to 5.05%)	7,792	10,289
KRW denominated	interest rate at 2.05% with final maturities through 2019 (2015:nil)	684	–
Unsecured bonds			
RMB denominated	interest rates ranging from 3.00% to 3.39% with final maturities through 2021 (2015:Nil)	8,500	–
KRW denominated	interest rate at 2.85% with final maturities through 2019 (2015:Nil)	310	–
Total long term borrowings		29,749	43,675

Short-term borrowings of the Group are repayable within one year. As at 31 December 2016, the interest rates relating to such borrowings ranged from 1.49% to 4.35% per annum (2015: 1.49% to 3.48% per annum).

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35. Provision for Return Condition Checks for Aircraft Under Operating Leases

	2016 RMB million	2015 RMB million
At 1 January	3,503	3,884
Accrual	1,010	968
Utilisation	(843)	(1,349)
At 31 December	3,670	3,503
Less: current portion	(1,175)	(1,281)
Long-term portion	2,495	2,222

In respect of aircraft and engines under operating leases, the Group has obligations to fulfil certain return conditions under the leases. The balance as at 31 December 2016 and 2015 represented the provision for the estimated cost of these return condition checks which is made on a straight-line basis over the term of the leases.

36. Other Long-Term Liabilities

	2016 RMB million	2015 RMB million
Fair value of unredeemed points awarded under the Group's frequent flyer programmes	1,750	1,739
Long-term duties and levies payable relating to finance leases	1,608	1,713
Other long-term payables	1,151	1,053
	4,509	4,505
Less: current portion included in other payables and accrued expenses (Note 32)	(635)	(515)
Long-term portion	3,874	3,990

37. Pension, Medical Insurance and Post-Retirement Benefits

(a) Pension

The group companies participate in defined contribution retirement schemes organised by municipal governments of various provinces in which the group companies operate. Substantially all of the Group's PRC employees are eligible to participate in this defined contribution retirement schemes. In addition, the group companies implemented an additional defined contribution retirement pension scheme for eligible employees since 2014. For the year ended 31 December 2016, the Group's pension costs charged to profit or loss amounted to RMB1,769 million (2015: RMB1,479 million).

(b) Medical insurance

Majority of the Group's PRC employees participate in the medical insurance schemes organised by municipal governments. For the year ended 31 December 2016, the Group's medical insurance contributions charged to profit or loss amounted to RMB606 million (2015: RMB563 million).

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37. Pension, Medical Insurance and Post-Retirement Benefits (continued)

(c) Post-retirement benefits

In addition to the above schemes, the Group provides eligible retirees with other post-retirement benefits, including retirement subsidies, transportation allowance as well as other welfare. The expected cost of providing these post-retirement benefits is actuarially determined and recognised by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and etc.

The plan is exposed to interest rate risk and the risk of changes in the life expectancy for pensioners.

The most recent actuarial valuation of the post-retirement benefit obligations was carried out at 31 December 2016 with assistance from a third party consultant using the projected unit credit actuarial valuation method.

The post-retirement benefit obligations recognised in the consolidated statement of financial position are as follows:

	2016 RMB million	2015 RMB million
Post-retirement benefit obligations	3,063	2,750
Less: current portion	(173)	(181)
Long-term portion	2,890	2,569

The principal actuarial assumptions utilised as at the end of the reporting period are as follows:

	2016	2015
Discount rates for post-retirement benefits	3.50%	3.30%
Mortality rate	China Insurance Life Mortality Table (2010-2013). CL5 for Male and CL6 for Female	China Insurance Life Mortality Table (2000-2003). CL3 for Male and CL4 for Female
Annual increase rate of post-retirement medical expenses	6.50%	6.50%
Inflation rate of pension benefits	2.50%	2.50%

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37. Pension, Medical Insurance and Post-Retirement Benefits (continued)

(c) Post-retirement benefits (continued)

A quantitative sensitivity analysis for significant assumptions at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in post-retirement benefit obligation RMB million	Decrease in rate %	Increase/ (decrease) in post-retirement benefit obligation RMB million
2016				
Discount rate for post-retirement benefits	0.25	(95)	0.25	100
Annual increase rate of pension benefits	1.00	325	1.00	(275)
Annual increase rate of medical expenses	1.00	46	1.00	(38)
2015				
Discount rate for post-retirement benefits	0.25	(86)	0.25	90
Annual increase rate of pension benefits	1.00	292	1.00	(247)
Annual increase rate of medical expenses	1.00	41	1.00	(34)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net post-retirement benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Expected contributions to be made in the future years out of the post-retirement benefit obligations were as follows:

	2016 RMB million	2015 RMB million
Within the next 12 months	173	181
Between 2 and 5 years	706	662
Between 5 and 10 years	894	831
Over 10 years	3,342	2,739
Total expected payments	5,115	4,413

The average duration of the post-retirement benefit obligations at the end of 2016 was 13 years and a half. (2015: 13 years).

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37. Pension, Medical Insurance and Post-Retirement Benefits (continued)

(c) Post-retirement benefits (continued)

The movements in the post-retirement benefit obligations were as follows:

2016

	Pension cost charged to profit or loss			Remeasurement (gains)/losses in other comprehensive income						
	1 January 2016	Service cost	Net interest	Sub-total included in profit or loss	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Experience adjustments	Sub-total included in other comprehensive income	Benefit settled	31 December 2016
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Defined benefit obligations/ benefit liability	2,750	-	88	88	(80)	373	117	410	(185)	3,063

2015

	Pension cost charged to profit or loss			Remeasurement (gains)/losses in other comprehensive income						
	1 January 2015	Service cost	Net interest	Sub-total included in profit or loss	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Experience adjustments	Sub-total included in other comprehensive income	Benefit settled	31 December 2015
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Defined benefit obligations/ benefit liability	3,032	-	114	114	-	56	(252)	(196)	(200)	2,750

38. Deferred Taxation

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

	2016 RMB million	2015 RMB million
Deferred tax assets	79	243
Deferred tax liabilities	(86)	(8)
Net deferred tax (liabilities)/assets	(7)	235

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38. Deferred Taxation (continued)

Movements in the net deferred tax (liabilities)/assets were as follows:

	2016 RMB million	2015 RMB million
At 1 January	235	144
(Charged)/credited to profit or loss (Note 14)	(146)	113
Charged to other comprehensive income	(96)	(22)
At 31 December	(7)	235

The deferred tax assets and liabilities (prior to the offsetting of balances within the same tax jurisdiction) were made up of the taxation effects of the following:

	2016 RMB million	2015 RMB million
Deferred tax assets:		
Impairment provision for obsolete flight equipment spare parts	22	43
Impairment provision for receivables	70	80
Impairment provision for property, plant and equipment	11	26
Derivative financial instruments	15	25
Impairment provision for available-for-sale investments	25	25
Other payables and accruals	88	89
Tax losses	–	133
Aged payables	7	–
	238	421
Deferred tax liabilities:		
Depreciation and amortisation	(85)	(136)
Available-for-sale investments	(123)	(39)
Derivative financial instruments	(37)	(11)
	(245)	(186)
	(7)	235

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38. Deferred Taxation (continued)

Movements in the net deferred tax assets/(liabilities) of the Group for the year were as follows:

	At the beginning of the year RMB million	(Charged)/ credited to profit or loss RMB million	(Charged)/ credited to other comprehensive income RMB million	At the end of the year RMB million
For the year ended 31 December 2016				
Impairment provision for flight equipment spare parts	43	(21)	–	22
Impairment provision for receivables	80	(10)	–	70
Impairment provision for property, plant and equipment	26	(15)	–	11
Derivative financial instruments	25	–	(10)	15
Impairment provision for available-for-sale investments	25	–	–	25
Other payables and accruals	89	(1)	–	88
Tax losses	133	(133)	–	–
Aged payables	–	7	–	7
	421	(173)	(10)	238
Depreciation and amortisation	(136)	51	–	(85)
Available-for-sale investments	(39)	(24)	(60)	(123)
Derivative financial instruments	(11)	–	(26)	(37)
	(186)	27	(86)	(245)
Net deferred tax assets/(liabilities)	235	(146)	(96)	(7)

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38. Deferred Taxation (continued)

	At the beginning of the year RMB million	(Charged)/ credited to profit or loss RMB million	(Charged)/ credited to other comprehensive income RMB million	At the end of the year RMB million
For the year ended 31 December 2015				
Impairment provision for flight equipment spare parts	32	11	–	43
Impairment provision for receivables	23	57	–	80
Impairment provision for property, plant and equipment	23	3	–	26
Derivative financial instruments impairment provision	9	(7)	23	25
for available-for-sale investments	–	25	–	25
Other payables and accruals	183	(94)	–	89
Tax losses	96	37	–	133
	366	32	23	421
Depreciation and amortisation	(208)	72	–	(136)
Available-for-sale investments	(5)	–	(34)	(39)
Derivative financial instruments	(9)	9	(11)	(11)
	(222)	81	(45)	(186)
Net deferred tax assets	144	113	(22)	235

As at the reporting date, the Group had the following balances in respect of which deferred tax assets have not been recognised:

	2016		2015	
	Deferred taxation RMB million	Temporary differences RMB million	Deferred taxation RMB million	Temporary differences RMB million
Tax losses carried forward	409	1,637	489	1,956
Other deductible temporary differences	32	128	49	195
Total unrecognised deferred tax assets	441	1,765	538	2,151

In accordance with the PRC tax law, tax losses can be carried forward, for a period of five years, to offset against future taxable income. The Group's tax losses carried forward will expire between 2017 and 2021.

As at 31 December 2016, management carried out an assessment to determine whether future taxable profits will be available to utilise the tax losses and deductible temporary differences. As there are still uncertainties around the Group's future operating results, such as future fuel prices and market competition, management assessed that for certain subsidiaries there are significant uncertainties that future taxable profits will be available and the deferred tax assets arising from aforementioned tax losses and deductible temporary differences were not recognised.

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39. Derivative Financial Instruments

	Assets		Liabilities	
	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million
At 31 December				
Interest rate swaps (Note (a))	137	22	47	101
Forward foreign exchange contracts (Note (b))	11	16	11	–
Cross currency swap (Note (c))	–	7	–	–
Total	148	45	58	101
Less: current portion				
– Interest rate swaps	–	–	–	(4)
– Forward foreign exchange contracts	(11)	–	(11)	–
	(11)	–	(11)	(4)
Non-current portion	137	45	47	97

Notes:

(a) Interest rate swaps

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3). The interest rate swaps entered into by the Group for swapping floating interest rates, usually referenced to LIBOR, into fixed rates are accounted for as cash flow hedges. Other interest rate swaps are accounted for as fair value hedges. As at 31 December 2016, the notional amount of the outstanding interest rate swap agreements was approximately USD1,636 million (2015: USD1,466 million). These agreements will expire between 2018 and 2025.

Realised and unrealised gains and losses arising from the valuation of these interest rate swaps have been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB million	2015 RMB million
Realised losses (recorded in finance costs)	(122)	(134)
Unrealised mark to market gains		
– cash flow hedges (recognised in other comprehensive income)	166	2
– fair value hedges (recognised in gain on fair value changes of derivative financial instruments)	2	6
	46	(126)

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39. Derivative Financial Instruments (continued)

Notes: (continued)

(b) Forward foreign exchange contracts

The Group uses foreign exchange forward contracts to reduce the risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3). The Group's foreign exchange forward contracts for selling foreign currency (i.e., JPY) and purchasing USD at fixed exchange rates are accounted for as cash flow hedges. As at 31 December 2016, the notional amount of the outstanding currency forward contracts was approximately USD440 million (2015: USD12 million), which will expire in 2017.

Realised and unrealised gains and losses arising from the valuation of these contracts have been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB million	2015 RMB million
Realised gains (recorded in finance costs)	5	15
Unrealised mark to market losses – cash flow hedges (recognised in other comprehensive income)	(16)	(11)
	(11)	4

(c) Cross currency swap

The Group uses cross currency swap to reduce the risk of changes in currency exchange rates and market interest rates. The cross currency swap entered into by the Group for swapping US dollars floating interest rates (LIBOR) into Euro floating interest rates (EURIBOR), is accounted for as a cash flow hedge. As at 31 December 2016, there were no outstanding cross currency swap (2015:USD38 million).

Realised and unrealised gain and loss arising from the valuation of the contract has been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB million	2015 RMB million
Realised gains (recorded in finance costs)	5	–
Unrealised mark to market gains/(losses) – cash flow hedge (recognised in other comprehensive income)	(7)	7
	(2)	7

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40. Financial Instruments by Category

2016	Loans and receivables RMB million	Assets at fair value through profit or loss RMB million	Derivatives used for hedging RMB million	Available for sale RMB million	Total RMB million
Financial assets					
Available-for-sale investments	–	–	–	645	645
Derivative financial instruments	–	–	148	–	148
Trade and notes receivables	2,660	–	–	–	2,660
Other receivables	2,937	–	–	–	2,937
Restricted bank deposits and short-term bank deposits	43	–	–	–	43
Cash and cash equivalents	1,695	–	–	–	1,695
Other non-current assets	285	–	–	–	285
Total	7,620	–	148	645	8,413

2016	Liabilities at fair value through profit or loss RMB million	Derivatives used for hedging RMB million	Loans and borrowings RMB million	Total RMB million
Financial liabilities				
Borrowings	–	–	56,732	56,732
Obligations under finance leases	–	–	61,041	61,041
Derivative financial instruments	–	58	–	58
Trade and bills payables	–	–	3,376	3,376
Other payables	–	–	12,942	12,942
Total	–	58	134,091	134,149

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40. Financial Instruments by Category (continued)

2015	Loans and receivables RMB million	Assets at fair value through profit or loss RMB million	Derivatives used for hedging RMB million	Available for sale RMB million	Total RMB million
Financial assets					
Available-for-sale investments	–	–	–	452	452
Derivative financial instruments	–	–	45	–	45
Trade and notes receivables	2,867	–	–	–	2,867
Other receivables	3,438	–	–	–	3,438
Restricted bank deposits and short-term bank deposits	35	–	–	–	35
Cash and cash equivalents	9,080	–	–	–	9,080
Other non-current assets	338	–	–	–	338
Total	15,758	–	45	452	16,255
Financial liabilities					
2015	Liabilities at fair value through profit or loss RMB million	Derivatives used for hedging RMB million	Loans and borrowings RMB million	Total RMB million	
Borrowings	–	–	66,712	66,712	
Obligations under finance leases	–	–	52,399	52,399	
Derivative financial instruments	2	99	–	101	
Trade and bills payables	–	–	3,712	3,712	
Other payables	–	–	11,721	11,721	
Total	2	99	134,544	134,645	

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41. Share Capital

	2016 RMB million	2015 RMB million
Registered, issued and fully paid of RMB1.00 each		
A shares listed on The Shanghai Stock Exchange ("A Shares")	9,808	8,481
– Tradable shares held by CEA Holding with trading moratorium	–	242
– Tradable shares held by CES Finance Holding Co., Limited with trading moratorium	–	457
– Tradable shares held by Shanghai Licheng Information Technology Consulting Co., Limited with trading moratorium	466	–
– Tradable shares held by China National Aviation Fuel Holding Company with trading moratorium	466	–
– Tradable shares held by China COSCO Shipping Corporation Limited with trading moratorium	233	–
– Tradable shares held by Caitong Fund Management Co., Limited with trading moratorium	162	–
– Tradable shares without trading moratorium	8,481	7,782
H shares listed on The Stock Exchange of Hong Kong Limited ("H Shares")	4,659	4,659
– Tradable shares held by CES Global Holdings (Hong Kong) Limited with trading moratorium	–	699
– Tradable shares without trading moratorium	4,659	3,960
	14,467	13,140

Pursuant to articles 49 and 50 of the Company's articles of association, both the listed A shares and listed H shares are registered ordinary shares and carry equal rights.

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue
At 1 January 2016	13,140
Issue of shares	1,327
At 31 December 2016	14,467

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42. Reserves

	Share premium	Capital reserve (Note (a))	Hedging reserve	Statutory reserve (Note (b))	Other reserves	Retained profits	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2015	20,190	(778)	(61)	–	(2,866)	815	17,300
Unrealised gains on cash flow hedges (Note 39)	–	–	10	–	–	–	10
Fair value movements in available-for-sale investments	–	–	–	–	82	–	82
Fair value changes of available-for-sale investments held by an associate	–	–	–	–	7	–	7
Actuarial gains on post-retirement benefit obligations	–	–	–	–	198	–	198
Acquisition of non-controlling interests	(252)	–	–	–	–	–	(252)
Transfer from retained profits	–	–	–	184	–	(184)	–
Issue of shares	2,389	–	–	–	–	–	2,389
Profit for the year	–	–	–	–	–	4,537	4,537
At 31 December 2015	22,327	(778)	(51)	184	(2,579)	5,168	24,271
At 1 January 2016	22,327	(778)	(51)	184	(2,579)	5,168	24,271
Unrealised gains on cash flow hedges (Note 39)	–	–	107	–	–	–	107
Fair value movements in available-for-sale investments	–	–	–	–	36	–	36
Fair value changes of available-for-sale investments held by an associate	–	–	–	–	(1)	–	(1)
Actuarial gains on post-retirement benefit obligations	–	–	–	–	(403)	–	(403)
Transfer from retained profits	–	–	–	144	–	(144)	–
Issue of shares	7,213	–	–	–	–	–	7,213
Profit for the year	–	–	–	–	–	4,498	4,498
Interim 2016 dividend	–	–	–	–	–	(738)	(738)
At 31 December 2016	29,540	(778)	56	328	(2,947)	8,784	34,983

Notes:

(a) Capital reserve

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

(b) Reserve funds

According to the PRC Company Law, the Company is required to transfer a portion of the profits to the statutory reserve. The transfer to this reserve must be made before distribution of dividend to shareholders and when there are retained profits at the end of the financial year.

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43. Disposal of a Subsidiary

	2016 RMB million	2015 RMB million
Net assets disposed of:		
Cash and bank balances	–	8
Lease prepayments	–	137
Other payables and accruals	–	(137)
Gain on disposal of a subsidiary	–	41
	–	49

	2016 RMB million	2015 RMB million
Satisfied by:		
Cash	–	49

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2016 RMB million	2015 RMB million
Cash consideration	–	49
Cash and bank balances disposed of	–	(8)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	41

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44. Partly-owned Subsidiaries with Material Non-controlling Interests

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests:		
CEA Jiangsu	37.44%	37.44%
CEA Yunnan	9.64%	9.64%
CEA Wuhan	40.00%	40.00%
China Cargo	17.00%	17.00%
	2016 RMB million	2015 RMB million
Profit for the year allocated to non-controlling interests:		
CEA Jiangsu	191	174
CEA Yunnan	75	120
CEA Wuhan	173	207
China Cargo	29	2
Dividends paid to non-controlling interests of CEA Jiangsu	56	37
Accumulated balances of non-controlling interests at the reporting dates:		
CEA Jiangsu	1,236	1,104
CEA Yunnan	574	499
CEA Wuhan	1,249	1,074
China Cargo	(105)	(132)

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44. Partly-owned Subsidiaries with Material Non-controlling Interests (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2016	CEA Jiangsu RMB million	CEA Yunnan RMB million	CEA Wuhan RMB million	China Cargo RMB million
Revenue	7,298	9,054	3,706	3,770
Total expenses	6,787	8,280	3,273	3,598
Profit for the year	511	774	433	172
Total comprehensive income for the year	503	774	438	157
Current assets	1,260	990	79	1,595
Non-current assets	8,163	16,153	6,108	1,525
Current liabilities	1,971	3,056	1,216	2,834
Non-current liabilities	4,149	8,134	1,849	889
Net cash flows from operating activities	1,937	3,178	(196)	279
Net cash flows (used in)/from investing activities	(675)	(1,098)	428	11
Net cash flows used in financing activities	(1,301)	(2,096)	(241)	(11)
Effect of foreign exchange rate changes, net	–	–	–	(1)
Net (decrease)/increase in cash and cash equivalents	(39)	(16)	(9)	278
2015	CEA Jiangsu RMB million	CEA Yunnan RMB million	CEA Wuhan RMB million	China Cargo RMB million
Revenue	6,431	9,518	3,486	4,325
Total expenses	5,965	8,273	2,968	4,316
Profit for the year	466	1,245	518	9
Total comprehensive income for the year	469	1,245	521	12
Current assets	2,080	2,936	2,570	1,314
Non-current assets	8,149	14,880	3,412	1,724
Current liabilities	2,444	4,565	1,307	2,875
Non-current liabilities	4,836	8,073	1,991	923
Net cash flows from operating activities	574	2,293	257	702
Net cash flows from/(used in) investing activities	74	(1,371)	(114)	(71)
Net cash flows used in financing activities	(617)	(934)	(145)	(668)
Effect of foreign exchange rate changes, net	1	14	–	1
Net increase/(decrease) in cash and cash equivalents	32	2	(2)	(36)

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45. Notes to the Statement of Consolidated Cash Flows

(a) Cash generated from operations

	2016 RMB million	2015 RMB million
Profit before income tax	6,497	5,667
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of other non-current assets	12,345	10,710
Amortisation of intangible assets	129	85
Depreciation of investment properties	11	4
Amortisation of lease prepayments	63	60
Gains on disposal of property, plant and equipment	(74)	(377)
Gain on disposal of lease prepayments	(3)	(1)
Gain on disposal of investment in a subsidiary	–	(41)
Gain on disposal of investment in an associate	(12)	–
Gain on disposal of available-for-sale investments	(95)	(33)
Dividend income from available-for-sale investments	(28)	(13)
Share of results of associates	(148)	(126)
Share of results of joint ventures	(39)	(26)
Net foreign exchange losses	3,246	5,480
Gain on fair value changes of derivative financial instruments	(2)	(6)
Impairment charges	29	228
Interest income	(96)	(66)
Interest expense	2,641	2,075
Operating profit before working capital changes	24,464	23,620
Changes in working capital		
Flight equipment spare parts	(202)	117
Trade and notes receivables	208	985
Prepayments and other receivables	(839)	(2,011)
Restricted bank deposits and short-term bank deposits	(8)	–
Sales in advance of carriage	1,836	777
Trade and bills payables	(336)	1,629
Other payables and accruals	1,424	(234)
Staff housing allowances	(57)	105
Other long-term liabilities	(883)	1,164
Post-retirement benefit obligations	321	(282)
Provision for return condition checks for aircraft under operating leases	167	(381)
Operating lease deposits	59	46
Cash generated from operations	26,154	25,535

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45. Notes to the Statement of Consolidated Cash Flows (continued)

(b) Major non-cash transactions

	2016 RMB million	2015 RMB million
Finance lease obligations incurred for acquisition of aircraft	8,838	21,887

46. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	2016 RMB million	2015 RMB million
Contracted for:		
– Aircraft, engines and flight equipment (Note)	123,019	106,666
– Other property, plant and equipment	9,550	3,923
– Investments	140	–
	132,709	110,589

Note:

Contracted expenditures for the above aircraft, engines and flight equipment, including deposits prior to delivery, subject to future inflation increase built into the contracts, were expected to be paid as follows:

	2016 RMB million	2015 RMB million
Within one year	28,384	23,781
In the second year	32,306	26,642
In the third year	28,983	25,579
In the fourth year	18,334	18,793
Over four years	15,012	11,871
	123,019	106,666

The above capital commitments represent the future outflow of cash or other resources.

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46. Commitments (continued)

(b) Operating lease commitments

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

	2016 RMB million	2015 RMB million
Aircraft, engines and flight equipment		
Within one year	3,814	4,308
In the second year	3,124	3,676
In the third to fifth years, inclusive	7,616	7,962
After the fifth year	7,605	8,977
	22,159	24,923
Land and buildings		
Within one year	362	299
In the second year	225	219
In the third to fifth years, inclusive	411	410
After the fifth year	732	814
	1,730	1,742
	23,889	26,665

47. Related Party Transactions

The Group is controlled by CEA Holding, which directly owns 35.06% of the Company's shares as at 31 December 2016 (2015: 38.61%). In addition, through CES Global Holdings (Hong Kong) Limited and CES Finance Holding Co., Limited, two wholly-owned subsidiaries of CEA Holding, CEA Holding indirectly owns additional shares of the Company of approximately 18.15% and 3.16% respectively as at 31 December 2016 (2015: 19.99% and 3.48%).

The Company is a state-owned enterprise established in the PRC and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 "Related Party Disclosures", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include CEA Holding and its subsidiaries (other than the Group), other government-related entities and their subsidiaries ("Other State-owned Enterprises"), other entities and corporations over which the Company is able to control or exercise significant influence and key management personnel of the Company as well as their close family members.

For the purpose of the related party transaction disclosures, the directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed.

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47. Related Party Transactions (continued)

(a) Nature of related parties that do not control or controlled by the Group:

Name of related party	Relationship with the Group
Eastern Air Finance Company	Associate of the Company
Eastern Import & Export and its subsidiaries (Eastern Import & Export*)	Associate of the Company
Shanghai P&W	Associate of the Company
Eastern Advertising	Associate of the Company
Jetstar Hong Kong	Associate of the Company
Collins Aviation	Associate of the Company
CAE Melbourne	Joint venture of the Company
Wheels & Brakes	Joint venture of the Company
Technologies Aerospace	Joint venture of the Company
China Kaiya	Joint venture of the Company
Shanghai Hute	Joint venture of the Company
CEA Development Co., Limited and its subsidiaries (“CEA Development”)	Controlled by the same parent company
China Eastern Air Catering Investment Co., Limited and its subsidiaries (“Eastern Air Catering”)	Controlled by the same parent company
CES International Financial Leasing Corporation Limited (“CES Lease Company”)	Controlled by the same parent company
Shanghai Eastern Airlines Investment Co., Limited (“Eastern Investment”)	Controlled by the same parent company
Beijing Eastern Airlines Investment Co., Limited (“Beijing Dongtou”)	Controlled by the same parent company
TravelSky Technology Limited (“TravelSky”)	A director and vice president of the Company is a director of TravelSky

(b) Related party transactions

Nature of transactions	Related party	Pricing policy decision	Income or receipts/ (expense or payments)	
			2016 RMB million	2015 RMB million
Interest income on deposits	Eastern Air Finance Company	(iv)	23	20
Interest income on loans	Jetstar Hong Kong	(iv)	–	1
Interest expense on loans	Eastern Air Finance Company	(iv)	(10)	(11)
	CEA Holding	(iv)	(1)	–
Handling charges for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and flight equipment and repairs for aircraft and engines*	Eastern Import & Export	(ii)	(105)	(119)

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47. Related Party Transactions (continued)

(b) Related party transactions (continued)

Nature of transactions	Related party	Pricing policy decision	Income or receipts/ (expense or payments)	
			2016 RMB million	2015 RMB million
Repairs and maintenance expense for aircraft and engines	Wheels & Brakes	(ii)	(176)	(137)
	Technologies Aerospace	(ii)	(252)	(193)
	Shanghai P&W	(ii)	(2,049)	(1,717)
	Shanghai Hute	(ii)	(84)	–
Supply of cabin cleaning services	Eastern Advertising	(ii)	(21)	–
Supply of logistics services	Eastern Import & Export	(ii)	(72)	–
Supply of system services	China Kaiya	(ii)	(79)	(45)
Supply of food and beverages*	Eastern Air Catering	(i)	(1,054)	(1,058)
	CEA Development	(i)	(51)	(38)
	Eastern Import & Export	(i)	(50)	(32)
Cargo handling income	Eastern Import & Export	(iii)	15	–
Advertising expense*	Eastern Advertising	(ii)	(36)	(24)
Media royalty fee	Eastern Advertising	(iii)	17	26
Automobile maintenance service, aircraft maintenance, providing transportation automobile and other products*	CEA Development	(ii)	(86)	(86)
Equipment maintenance fee	Collins Aviation	(ii)	(30)	(26)
	CEA Development	(ii)	(11)	(24)
Property management and green maintenance expenses*	CEA Development	(ii)	(59)	(52)
Supply of hotel accommodation service	CEA Development	(ii)	(91)	(39)
Land and building rental*	CEA Holding	(ii)	(54)	(52)
Disposal of a subsidiary	Eastern Investment	(v)	–	49
Payments on finance leases*	CES Lease Company	(ii)	(2,721)	(216)
Civil aviation information network services**	TravelSky	(ii)	(590)	(454)
Flight training fee	CAE Melbourne	(ii)	(68)	–

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47. Related Party Transactions (continued)

(b) Related party transactions (continued)

- (i) The Group's pricing policies on products purchased from related parties are mutually agreed between contract parties.
- (ii) The Group's pricing policies on services provided by related parties are mutually agreed between contract parties.
- (iii) The Group's pricing policies on services provided to related parties are mutually agreed between contract parties.
- (iv) The Group's pricing policies on related party interest rates are mutually agreed between contract parties by reference to the benchmark interest rates.
- (v) The Group's pricing policies on transfer of equity or disposal of investments are mutually agreed based on the valuation prices.
- * These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").
- ** This related party transaction constitutes continuing connected transaction pursuant to the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

(c) Balances with related parties**(i) Amounts due from related parties**

	2016 RMB million	2015 RMB million
Prepayments and other receivables		
Eastern Import & Export	536	31
China Kaiya	–	11
Technologies Aerospace	16	5
Beijing Dongtou	–	88
Eastern Air Catering	57	–
Others	7	4
	616	139

All the amounts due from related parties are trade in nature, interest-free and payable within normal credit terms.

(ii) Amounts due to related parties

	2016 RMB million	2015 RMB million
Trade and bills payables		
Eastern Import & Export	85	295
Eastern Air Catering	37	37
Technologies Aerospace	45	5
Wheels & Brakes	–	8
CEA development	19	2
Collins Aviation	2	1
CEA Holding	3	1
TravelSky	–	548
Shanghai Hute	19	–
Others	4	–
	214	897

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47. Related Party Transactions (continued)

(c) Balances with related parties (continued)

(ii) Amounts due to related parties (continued)

	2016 RMB million	2015 RMB million
Other payables and accruals		
Eastern Import & Export	240	303
Shanghai P&W	324	259
Eastern Air Catering	166	253
CEA Holding	303	160
Collins Aviation	–	3
Shanghai Hute	20	–
Technologies Aerospace	29	25
Wheels & Brakes	26	3
Jetstar Hong Kong	–	10
CEA Development	72	61
TravelSky	963	223
Eastern Advertising	18	–
Others	5	5
	2,166	1,305

	2016 RMB million	2015 RMB million
Obligations under finance leases		
CES Lease Company	5,521	5,826

Except for the amounts due to CES Lease Company, which are related to the aircraft under finance leases, all other amounts due to related parties are interest-free and payable within normal credit terms given by trade creditors.

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

	Average interest rate		2016 RMB million	2015 RMB million
	2016	2015		
Short-term deposits (included in cash and cash equivalents)				
Eastern Air Finance Company	0.35%	0.35%	1,296	729
Long-term borrowings (included in borrowings)				
CEA Holding	3.48%	–	28	–

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47. Related Party Transactions (continued)**(d) Guarantees by the holding company**

As at 31 December 2016, bonds of the Group guaranteed by CEA Holding amounted to RMB7.8 billion (2015: RMB4.8 billion) (Note 34(b)).

(e) Key management compensation

The compensation paid or payable to key management for employee services mainly comprising of salaries and other short-term employee benefits was analysed as below:

	2016 RMB million	2015 RMB million
Directors and supervisors	2	3
Senior management	4	3
	6	6

48. Dividends

	2016 RMB million	2015 RMB million
Interim – RMB5.1 cents (2015: Nil) per ordinary share	738	–
Proposed final – RMB4.9 cents (2015: nil) per ordinary share	709	–
	1,447	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

49. Events After the Reporting Period

Up to 30 March 2017, the Company issued three phases of short-term debentures with total principal for RMB7.0 billion and the maturity from 90 days to 180 days to institutional investors in the national interbank bond market. The debentures bear interest at the rate of 3.00% per annum to 3.60% per annum.

On 29 November 2016, the Company announced the decision of its Board to transfer 100% equity interest in Eastern Logistics, a wholly-owned subsidiary of the Company, to Eastern Airlines Industry Investment Company, a wholly-owned subsidiary of CEA Holding, based on the result of appraisal conducted by asset-based approach for a consideration of RMB2,433 million. Eastern Logistics engages in cargo logistics services. The Group has decided to cease its freight logistics business because it plans to focus relevant resources on operating its air passenger transportation business in the future. The disposal of Eastern Logistics is subject to shareholders' approval and was approved by the shareholders on 17 January 2017. As at 31 December 2016, Eastern Logistics is included in the reportable segment of "airline transportation operations" in the Note 7 to the financial statements. At of 8 February 2017, the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment Company Limited and the industrial and commercial registration of such transfer have been completed. As such, since the completion of the share transfer, Eastern Logistics has ceased to be a subsidiary of the Company.

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50. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2016 RMB million	31 December 2015 RMB million
Non-current assets		
Intangible assets	11,598	11,503
Property, plant and equipment	98,515	84,207
Investment properties	31	–
Lease prepayments	1,078	1,157
Advanced payments on acquisition of aircraft	23,357	21,207
Investments in subsidiaries	14,216	14,216
Investments in associates	1,009	1,009
Investments in joint ventures	323	323
Available-for-sale investments	570	388
Other non-current assets	2,123	2,935
Deferred tax assets	–	137
Derivative financial instruments	137	45
	152,957	137,127
Current assets		
Flight equipment spare parts	38	38
Trade and notes receivables	6,305	6,725
Prepayments and other receivables	17,263	12,763
Derivative financial instruments	11	–
Restricted bank deposits and short-term bank deposits	26	27
Cash and cash equivalents	976	8,015
	24,619	27,568
Current liabilities		
Sales in advance of carriage	7,294	5,535
Trade and bills payables	7,438	8,876
Other payables and accruals	22,993	25,116
Current portion of obligations under finance leases	4,002	3,628
Current portion of borrowings	27,407	32,836
Current portion of provision for return condition checks for aircraft under operating leases	547	585
Derivative financial instruments	11	4
	69,692	76,580
Net current liabilities	(45,073)	(49,012)
Total assets less current liabilities	107,884	88,115

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50. Statement of Financial Position of the Company (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows (cont'd):

	31 December 2016 RMB million	31 December 2015 RMB million
Non-current liabilities		
Obligations under finance leases	36,203	28,037
Borrowings	23,033	20,734
Provision for return condition checks for aircraft under operating leases	741	713
Other long-term liabilities	2,075	1,927
Post-retirement benefit obligations	2,148	2,064
Deferred tax liabilities	95	16
Derivative financial instruments	47	97
	64,342	53,588
Net assets	43,542	34,527
Equity		
Capital and reserves attributable to the equity holders of the Company		
– Share capital	14,467	13,140
– Reserves	29,075	21,387
Total equity	43,542	34,527

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB million	Capital reserve RMB million	Hedging reserve RMB million	Statutory reserve RMB million	Other reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 2015	20,464	(720)	(61)	–	(2,301)	(385)	16,997
Unrealised gains on cash flow hedges (Note 39)	–	–	10	–	–	–	10
Fair value movements in available- for-sale investments	–	–	–	–	73	–	73
Actuarial gains on post-retirement benefit obligations	–	–	–	–	185	–	185
Issue of shares	2,389	–	–	–	–	–	2,389
Transfer from retained profits	–	–	–	184	–	(184)	–
Profit for the year	–	–	–	–	–	1,733	1,733
At 31 December 2015	22,853	(720)	(51)	184	(2,043)	1,164	21,387
Unrealised gains on cash flow hedges (Note 39)	–	–	107	–	–	–	107
Fair value movements in available- for-sale investments	–	–	–	–	31	–	31
Fair value changes of available- for-sale investments held by an associate	–	–	–	–	(1)	–	(1)
Actuarial gains on post-retirement benefit obligations	–	–	–	–	(345)	–	(345)
Issue of shares	7,213	–	–	–	–	–	7,213
Transfer from retained profits	–	–	–	144	–	(144)	–
Profit for the year	–	–	–	–	–	1,421	1,421
Interim 2016 dividend	–	–	–	–	–	(738)	(738)
At 31 December 2016	30,066	(720)	56	328	(2,358)	1,703	29,075

Independent Auditors' Report



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To the shareholders of China Eastern Airlines Corporation Limited

(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries set out on pages 77 to 161, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2015

	Notes	2015 RMB million	2014 RMB million
Revenues	5	93,969	90,185
Other operating income and gains	6	5,269	3,685
Gain on fair value changes of derivative financial instruments	8	6	11
Operating expenses			
Aircraft fuel		(20,312)	(30,238)
Take-off and landing charges		(10,851)	(9,440)
Depreciation and amortisation		(10,471)	(9,183)
Wages, salaries and benefits	9	(16,459)	(11,270)
Aircraft maintenance		(4,304)	(4,453)
Impairment charges	10	(228)	(12)
Food and beverages		(2,469)	(2,364)
Aircraft operating lease rentals		(4,254)	(4,502)
Other operating lease rentals		(812)	(637)
Selling and marketing expenses		(3,651)	(4,120)
Civil aviation development fund		(1,826)	(1,656)
Ground services and other expenses		(5,479)	(4,998)
Indirect operating expenses		(5,503)	(4,950)
Total operating expenses		(86,619)	(87,823)
Operating profit	11	12,625	6,058
Share of results of associates	22	126	91
Share of results of joint ventures	23	26	36
Finance income	12	66	88
Finance costs	13	(7,176)	(2,160)
Profit before income tax		5,667	4,113
Income tax expense	14	(624)	(573)
Profit for the year		5,043	3,540
Other comprehensive income for the year			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Cash flow hedges, net of tax	39	10	(11)
Fair value changes of available-for-sale investments, net of tax		87	13
Fair value changes of available-for-sale investments held by an associate, net of tax	22	7	(1)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		104	1
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial gains/(losses) on the post-retirement benefit obligations, net of tax	37	196	(333)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		196	(333)
Other comprehensive income, net of tax		300	(332)
Total comprehensive income for the year		5,343	3,208

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2015

	Notes	2015 RMB million	2014 RMB million
Profit attributable to:			
Equity holders of the Company		4,537	3,410
Non-controlling interests		506	130
Profit for the year		5,043	3,540
Total comprehensive income attributable to:			
Equity holders of the Company		4,834	3,071
Non-controlling interests		509	137
Total comprehensive income for the year		5,343	3,208
Earnings per share attributable to the equity holders of the Company during the year			
– Basic and diluted (RMB)	15	0.35	0.27

Consolidated Statement of Financial Position

(Prepared in accordance with International Financial Reporting Standards)
31 December 2015

	Notes	31 December 2015 RMB million	31 December 2014 RMB million
Non-current assets			
Intangible assets	17	11,522	11,500
Property, plant and equipment	18	133,242	109,439
Investment properties	19	294	–
Lease prepayments	20	2,094	2,206
Advanced payments on acquisition of aircraft	21	21,207	20,260
Investments in associates	22	1,543	1,086
Investments in joint ventures	23	518	505
Available-for-sale investments	24	452	433
Other non-current assets	25	3,754	1,957
Deferred tax assets	38	243	170
Derivative financial instruments	39	45	30
		174,914	147,586
Current assets			
Flight equipment spare parts	26	2,056	2,259
Trade receivables	27	2,867	3,862
Prepayments and other receivables	28	8,446	6,394
Derivative financial instruments	39	–	5
Restricted bank deposits and short-term bank deposits	29	35	38
Cash and cash equivalents	30	9,080	1,355
Assets classified as held for sale	16	594	4,330
		23,078	18,243
Current liabilities			
Sales in advance of carriage		5,841	5,064
Trade and bills payable	31	3,712	2,083
Other payables and accruals	32	19,057	19,215
Current portion of obligations under finance leases	33	6,109	4,596
Current portion of borrowings	34	38,214	28,676
Income tax payable		169	229
Current portion of provision for return condition checks for aircraft under operating leases	35	1,281	1,267
Derivative financial instruments	39	4	–
		74,387	61,130
Net current liabilities		(51,309)	(42,887)
Total assets less current liabilities		123,605	104,699

Consolidated Statement of Financial Position

(Prepared in accordance with International Financial Reporting Standards)
31 December 2015

	Notes	31 December 2015 RMB million	31 December 2014 RMB million
Non-current liabilities			
Obligations under finance leases	33	46,290	34,099
Borrowings	34	28,498	30,513
Provision for return condition checks for aircraft under operating leases	35	2,222	2,617
Other long-term liabilities	36	3,990	2,756
Post-retirement benefit obligations	37	2,569	2,822
Deferred tax liabilities	38	8	26
Derivative financial instruments	39	97	95
		83,674	72,928
Net assets			
		39,931	31,771
Equity			
Equity attributable to the equity holders of the Company			
– Share capital	41	13,140	12,674
– Reserves	42	24,271	17,300
		37,411	29,974
Non-controlling interests			
		2,520	1,797
Total equity			
		39,931	31,771

The financial statements were approved by the Board of Directors on 30 March 2016 and were signed on its behalf.

Liu Shaoyong
Director

Ma Xulun
Director

Consolidated Statement of Changes in Equity

(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2015

	Attributable to equity holders of the Company					
	Share capital RMB million	Other reserves RMB million	Retained profits/ (accumulated losses) RMB million	Subtotal RMB million	Non- controlling interests RMB million	Total equity RMB million
Balance at 1 January 2014	12,674	16,823	(2,595)	26,902	1,680	28,582
Profit for the year	–	–	3,410	3,410	130	3,540
Other comprehensive income	–	(339)	–	(339)	7	(332)
Total comprehensive income for the year	–	(339)	3,410	3,071	137	3,208
Dividends paid to non-controlling interests	–	–	–	–	(20)	(20)
Others	–	1	–	1	–	1
Balance at 31 December 2014	12,674	16,485	815	29,974	1,797	31,771
Profit for the year	–	–	4,537	4,537	506	5,043
Other comprehensive income	–	297	–	297	3	300
Total comprehensive income for the year	–	297	4,537	4,834	509	5,343
Issue of shares (Note 41)	466	2,389	–	2,855	–	2,855
Acquisition of non-controlling interests	–	(252)	–	(252)	252	–
Dividends paid to non-controlling interests	–	–	–	–	(38)	(38)
Transfer from retained profits	–	184	(184)	–	–	–
Balance at 31 December 2015	13,140	19,103*	5,168*	37,411	2,520	39,931

* These reserve accounts comprise the consolidated reserves of RMB24,271 million (2014: RMB17,300 million) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2015

	Notes	2015 RMB million	2014 RMB million
Cash flows from operating activities			
Cash generated from operations	45(a)	25,535	12,767
Income tax paid		(1,210)	(471)
Net cash flows from operating activities		24,325	12,296
Cash flows from investing activities			
Additions to property, plant and equipment		(8,609)	(5,640)
Additions to lease prepayments	20	(82)	(109)
Additions to intangible assets	17	(109)	(79)
Advanced payments on acquisition of aircraft	21	(24,772)	(20,067)
Proceeds from disposal of assets classified as held for sale		4,227	344
Proceeds from disposal of property, plant and equipment		1,294	1,623
Proceeds from disposal of lease payments		47	—
Decrease in restricted and short-term bank deposits		3	—
Proceeds from disposal of short-term deposits		—	132
Purchase of a shareholding in a joint venture		—	(58)
Increase in shareholding in associates		(413)	—
Acquisition of a subsidiary, net of cash acquired		—	16
Purchases of available-for-sale investments		—	(7)
Interest received		66	88
Dividends received		92	75
Proceeds from disposal of interest in a subsidiary		49	—
Repayment of loans from an associate		372	—
Advances of loans to an associate		—	(369)
Proceeds from disposal of interests in available-for-sale investments		35	18
Net cash flows used in investing activities		(27,800)	(24,033)
Cash flows from financing activities			
Proceeds from issue of shares		2,855	—
Proceeds from draw-down of short-term bank loans		26,916	33,863
Repayments of short-term debentures		(10,000)	(4,000)
Repayments of short-term bank loans		(34,767)	(27,810)
Proceeds from issuance of short-term debentures		21,500	4,000
Proceeds from issuance of long-term debentures and bonds		—	3,300
Proceeds from government grants		—	3
Proceeds from draw-down of long-term bank loans and other financing activities		24,572	16,971
Repayments of long-term bank loans		(10,540)	(7,451)
Repayments of long-term bonds		—	(2,500)
Principal repayments of finance lease obligations		(6,350)	(3,250)
Interest paid		(3,065)	(1,994)
Dividends paid to non-controlling interests of subsidiaries		(38)	(20)
Net cash flows from financing activities		11,083	11,112
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of year		1,355	1,995
Effect of foreign exchange rate changes		117	(15)
Cash and cash equivalents at 31 December	30	9,080	1,355

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
31 December 2015

1. Corporate and Group Information

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

In the opinion of the directors, the holding company and ultimate holding company of the Company is China Eastern Air Holding Company ("CEA Holding"), a state-owned enterprise established in the PRC.

The A shares, H shares and American Depositary Receipts are listed on the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and The New York Stock Exchange, respectively.

These financial statements were approved and authorised for issue by the Company's Board of Directors (the "Board") on 30 March 2016.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and address	Issued ordinary/ registered share capital million	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Eastern Airlines Jiangsu Co., Ltd. ("CEA Jiangsu")	PRC 3 May 1993	RMB2,000	62.56%	–	Provision of airline services
China Eastern Airlines Wuhan Co., Ltd. ("CEA Wuhan")	PRC 16 August 2002	RMB1,750	60%	–	Provision of airline services
Shanghai Eastern Flight Training Co., Ltd. ("Shanghai Flight Training")	PRC 18 December 1995	RMB694	100%	–	Provision of flight training services
Shanghai Airlines Co., Ltd. ("Shanghai Airlines")	PRC 16 March 2010	RMB500	100%	–	Provision of airline services
China Cargo Airlines Co., Ltd. ("China Cargo")	PRC 22 July 1998	RMB3,000	–	83%	Provision of cargo carriage service
China Eastern Airlines Technology Co., Ltd. ("Eastern Technology")	PRC 19 November 2014	RMB4,300	100%	–	Provision of airline maintenance services
Shanghai Eastern Airlines Logistics Co., Ltd. ("Eastern Logistics")	PRC 23 August 2004	RMB1,150	100%	–	Provision of cargo logistics services
Eastern Business Airlines Service Co., Ltd. ("Eastern Business Airlines Service")	PRC 27 September 2008	RMB50	100%	–	Provision of airlines consultation services

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
31 December 2015

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and address	Issued ordinary/ registered share capital million	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Eastern Airlines Yunnan Co., Ltd. ("CEA Yunnan")	PRC 2 August 2011	RMB3,662	90.36%	–	Provision of airline services
Eastern Air Overseas (Hong Kong) Co., Ltd. ("Eastern Air Overseas")	Hong Kong 10 June 2011	HKD30	100%	–	Provision of import and export, investment, leasing and consultation services
China United Airlines Co., Ltd. ("China United Airlines")	PRC 21 September 1984	RMB1,320	100%	–	Provision of airline services
Eastern Airlines Hotel Co., Ltd.	PRC 18 March 1998	RMB70	100%	–	Provision of hotel services primarily to crew members
Shanghai Airlines Tours International (Group) Co., Ltd. ("Shanghai Airlines Tours")	PRC 29 August 1992	RMB50	100%	–	Tour operations, travel and air ticketing agency and transportation
China Eastern Airlines Application Development Center Co., Ltd. ("Application Development Center")	PRC 21 November 2011	RMB498	100%	–	Provision of R&D of technology and products in the field of aviation

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All of the PRC-incorporated subsidiaries of the Company listed above are limited liability companies.

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
31 December 2015

2.1 Basis of Preparation

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest million except when otherwise indicate.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Going concern

As at 31 December 2015, the Group’s current liabilities exceeded its current assets by approximately RMB51.31 billion. In preparing the financial statements, the Board conducts an adequate and detailed review over the Group’s going concern ability based on the current financial situation.

The Board has taken active actions to deal with the situation that current liabilities exceeded its current assets and the Board is confident that they have obtained adequate credit facility from the banks to support the floating capital. As at 31 December 2015, the Group had total unutilised credit facility amounting to approximately RMB55.17 billion from banks.

Based on the bank facility obtained by the Group, the past record of the financing and the good working relationship with major banks and financial institutions, the Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements for the upcoming twelve months. Accordingly, the Board believes that it is appropriate to prepare these financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
31 December 2015

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i>
<i>Annual Improvements to IFRSs 2010–2012 Cycle</i>	Amendments to a number of IFRSs
<i>Annual Improvements to IFRSs 2011–2013 Cycle</i>	Amendments to a number of IFRSs

The above new and amended standards have had no material impact on the Group.

The nature and the impact of each amendment is described below:

- (a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group's post-retirement benefit plan does not require the contributions from employees.
- (b) The *Annual Improvements to IFRSs 2010-2012 Cycle* sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:
- *IFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.
 - *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.
 - *IAS 24 Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.
- (c) The *Annual Improvements to IFRSs 2011-2013 Cycle* sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:
- *IFRS 3 Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendments have had no impact on the Group.
 - *IFRS 13 Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.
 - *IAS 40 Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group did not purchase any investment properties during the year.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
31 December 2015

2.3 Issued But Not Yet Effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	<i>Financial Instruments</i> ³
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁶
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
IFRS 15	<i>Revenue from Contracts with Customers</i> ³
IFRS 16	<i>Leases</i> ⁴
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ²
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ²
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for annual periods beginning on or after 1 January 2019

⁵ Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁶ No mandatory effective date yet determined

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

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2.3 Issued But Not Yet Effective International Financial Reporting Standards (continued)

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2018. The Group is currently assessing the impact of the standard.

IFRS 16 set out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure the lessees and the lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis, and subsequently, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, IFRS 16 also requires enhanced disclosures to be provided by lessors. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of the standard upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in IAS 1;
- (ii) that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any significant impact on the financial position or performance of the Group upon adoption on 1 January 2016.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, both from cash flows and non-cash changes. The amendments are mandatory for annual periods beginning on or after 1 January 2017 and are not expected to have any significant impact on the Group's financial statements.

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2.4 Summary of Significant Accounting Policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Segmental reporting

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

Foreign currency translation

(i) Functional currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income' or 'finance costs'.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Notes to the Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition and sales in advance of carriage

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

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(i) Traffic revenues

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

(ii) Ground service income and tour operation revenues

Revenues from the provision of ground services, tour, travel services and other travel related services are recognised when the services are rendered.

(iii) Cargo handling income

Revenues from the provision of cargo handling are recognised when the services are rendered.

(iv) Commission income

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

(v) Other revenue

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

(vi) Frequent flyer programmes

The Group operates frequent flyer programmes that provide travel awards to programme members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognised when the miles have been redeemed or have expired.

(vii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

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2.4 Summary of Significant Accounting Policies (continued)

Maintenance and overhaul costs

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

In respect of aircraft and engines owned by the Group or held under finance leases, overhaul costs that meet specific recognition criteria are capitalised as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles.

All other repairs and maintenance costs are charged to profit or loss as and when incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income tax

Income tax for the period comprises current and deferred tax. Income tax is recognised in profit or loss, except that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

Intangible assets

(i) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

Notes to the Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (continued)

(i) Goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(ii) Computer software costs

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

Deferred pilot recruitment costs

Deferred pilot recruitment costs represent the costs borne by the Group in connection with securing certain minimum period of employment of pilots and are amortised on a straight-line basis over the anticipated beneficial period of 5 years, starting from the date the pilot joins the Group.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group;
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment

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

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

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

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

Owned and finance leased aircraft and engines	15 to 20 years
Other flight equipment, including rotables	10 years
Buildings	8 to 45 years
Other property, plant and equipment	3 to 20 years

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each financial year end. The carrying amount of an item of property, plant and equipment is written off immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the assets' carrying amounts and are recognised in profit or loss.

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. After initial recognition, the Group chooses the cost model to measure all of its investment properties.

Depreciation is calculated on the straight-line basis to write off the cost to its residual value over its estimated useful life. The estimated useful lives are as follows:

Buildings	30 to 35 years
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The carrying amounts of investment properties measured using the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Notes to the Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

Impairment of investments in subsidiaries, associates, joint ventures and non-financial assets

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal of groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Lease prepayments

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

Advanced payments on acquisition of aircraft

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

Flight equipment spare parts

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

Trade and other receivables

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

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2.4 Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including assets similar in nature to cash, which are not restricted as to use.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date in which case such borrowings are classified as non-current liabilities.

Provisions

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

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

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

For the contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, the present obligation under the contract is recognised and measured as a provision.

Leases

(i) As lessee

Finance leases

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

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2.4 Summary of Significant Accounting Policies (continued)

Leases (continued)

(i) As lessee (continued)

Finance leases (continued)

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

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

Operating leases

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

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognised immediately in profit or loss, except to the extent that any profit or loss is compensated for by future lease payments at above or below market value, then the profit or loss is deferred and amortised over the period for which the asset is expected to be used.

(ii) As lessor

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

Retirement benefits

(i) Defined contribution plans

The Group participates in schemes regarding pension and medical benefits for employees organised by the municipal governments of the relevant provinces. Contributions to these schemes are expensed as incurred.

The Group also implemented an additional defined contribution pension benefit scheme (annuity) for voluntary eligible employees. Contributions are made based on a percentage of the employees' total salaries and are charged to profit or loss as incurred.

(ii) Defined benefit plan

The Group provides eligible retirees with certain post-retirement benefits including retirement subsidies, transportation allowance as well as other welfare. The defined post-retirement benefits are unfunded. The cost of providing benefits under the post-retirement benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the post-retirement benefit plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

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2.4 Summary of Significant Accounting Policies (continued)

Retirement benefits (continued)

(ii) Defined benefit plan (continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Wages, salaries and benefits" and "Finance costs" in profit or loss:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

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2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges (continued)

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

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

Available-for-sale investments

Investments in securities other than subsidiaries, associates and joint ventures, being held for non-trading purposes, are classified as available-for-sale investments and are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. At each reporting date, the fair value is remeasured, with any resulting gain or loss being recognised in other comprehensive income, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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

Dividend distribution

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

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2.4 Summary of Significant Accounting Policies (continued)

Fair value measurement

The Group measures its derivative financial instruments and listed equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Business combination

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Notes to the Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. Financial Risk Management

(a) Financial risk factors

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

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

Foreign currency risk

The Group operates its business in many countries and territories. The Group generates its revenue in different currencies, and its foreign currency liabilities at the end of the period are much higher than its foreign currency assets. The Group's major liability item (mainly resulting from purchases of aircraft) is mainly priced and settled in foreign currencies, primarily US dollars. The Group is exposed to currency risks from fluctuations in various foreign currency exchange rates against RMB.

RMB is not a freely convertible currency and is regulated by the PRC government. Limitation on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

In addition, fluctuations in foreign currency exchange rates will affect the Group's future costs for purchases of aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports.

The Group entered into certain foreign exchange forward contracts and cross currency swap to manage part of these foreign currency risks. As at 31 December 2015, the currency derivatives at notional value and cross currency swap at notional value were RMB78 million and RMB244 million, respectively. Details of foreign currency forward contracts and cross currency swap are disclosed in Note 39 to the financial statements.

Notes to the Financial Statements

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3. Financial Risk Management (continued)

(a) Financial risk factors (continued)

Foreign currency risk (continued)

The following tables detail the Group's exposure at the reporting dates to major currency risk:

	2015		
	USD RMB million	Euro RMB million	JPY RMB million
Trade and other receivables	1,684	92	16
Cash and cash equivalents	7,755	56	36
Deposits relating to aircraft under operating leases	145	—	—
Other non-current assets	322	—	—
Trade and other payables	(124)	—	(3)
Obligations under finance leases	(50,342)	—	(344)
Borrowings	(36,943)	—	—

	2014		
	USD RMB million	Euro RMB million	JPY RMB million
Trade and other receivables	1,684	97	12
Cash and cash equivalents	490	45	16
Deposits relating to aircraft under operating leases	482	—	—
Other non-current assets	46	—	—
Trade and other payables	(30)	—	(2)
Obligations under finance leases	(36,437)	—	(375)
Borrowings	(42,984)	—	—

The following tables indicate the approximate change in the Group's consolidated statement of profit or loss and other comprehensive income in response to a 1% appreciation or depreciation of the RMB against the following major currencies at the reporting dates:

	2015		2014	
	Effect on profit or loss income RMB million	Effect on other comprehensive income RMB million	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million
If the RMB(weakens)/strengthens against the US dollars	(581)/581	—	(628)/628	—
If the RMB(weakens)/strengthens against the Euro	1/(1)	—	2/(2)	—
If the RMB(weakens)/strengthens against the Japanese Yen	(2)/2	—	(4)/4	—

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3. Financial Risk Management (continued)

(a) Financial risk factors (continued)

Interest rate risk

The Group's interest rate risk primarily arises from borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings and finance leases issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the proportion of borrowings and finance leases issued at variable rates and fixed rates based on the market environment.

The Group's finance department has been monitoring the level of interest rates. The increase in the interest rates will increase the interest costs of borrowings and finance leases issued at variable rates, which will further impact the performance of the Group. To hedge against the variability in the cash flows arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in Notes 34 and 39(a) to the financial statements.

The following tables detail the interest rate profiles of the Group's interest-bearing financial instruments at the reporting dates:

	2015 RMB million	2014 RMB million
Floating rate instruments		
Cash and cash equivalents	9,080	1,355
Restricted bank deposits and short-term bank deposits	35	38
Bills payable included in trade and bills payable	(800)	-
Borrowings	(34,823)	(37,302)
Obligations under finance leases	(52,399)	(38,695)
Interest rate swap at notional amount	9,474	4,791
Cross currency swap at notional amount	244	-

	2015 RMB million	2014 RMB million
Fixed rate instruments		
Borrowings	(31,889)	(21,887)
Interest rate swap at notional amount	48	110

The following table indicates the approximate change in the Group's profit or loss and other comprehensive income, taking the interest rate swap into consideration, if interest rate had been 25 basis points higher with all other variables held constant:

	2015		2014	
	Effect on profit or loss income RMB million	Effect on other comprehensive income RMB million	Effect on profit or loss RMB million	Effect on other comprehensive income RMB million
Floating rate instruments	(148)	18	(161)	12

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3. Financial Risk Management (continued)

(a) Financial risk factors (continued)

Fuel price risk

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense component for the Group. Aircraft fuel accounts for approximate 23% of the Group's operating expenses (2014: 34%).

As at 31 December 2015, the Group had no open crude oil option contracts.

For the year ended 31 December 2015, if fuel price had been 5% higher/lower with all other variables held constant, the Group's fuel cost would have been RMB1,016 million higher/lower (2014: RMB1,512 million higher/lower).

Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, deposits and derivative financial instruments with banks and financial institutions, as well as credit exposures to sales agents.

A significant portion of the Group's air tickets are sold by sales agents participating in the Billing and Settlements Plan ("BSP"), a clearing system between airlines and sales agents organised by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB752 million as at 31 December 2015 (2014: approximately RMB848 million). The credit risk exposure to BSP and the remaining trade receivables are maintained by the Group on an on-going basis and the allowance for impairment of doubtful debts is within management's expectations.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other banks which are highly rated by international credit rating companies. The Group also deposits cash and cash equivalents in an associate financial institution owned by its holding company (Note 47(c)(iii)). Management does not expect any loss to arise from non-performance by these banks and the financial institution.

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

Liquidity risk

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

The Group operates with a working capital deficit. As at 31 December 2015, the Group's net current liabilities amounted to RMB51,309 million (2014: RMB42,887 million). For the year ended 31 December 2015, the Group recorded a net cash inflow from operating activities of RMB24,325 million (2014: inflow RMB12,296 million), a net cash outflow from investing activities and financing activities of RMB16,717 million (2014: outflow RMB12,921 million), and an increase in cash and cash equivalents of RMB7,608 million (2014: decrease of RMB625 million).

The Directors of the Company believe that cash from operations and bank loans will be sufficient to meet the Group's operating cash flow. Due to the dynamic nature of the underlying businesses, the Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Directors of the Company believe that the Group has obtained sufficient general credit facilities from the PRC banks for financing future capital commitments and for working capital purposes (see Note 2.1).

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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3. Financial Risk Management (continued)

(a) Financial risk factors (continued)

Liquidity risk (continued)

	Less than 1 year RMB million	Between 1 and 2 years RMB million	Between 2 and 5 years RMB million	Over 5 years RMB million
At 31 December 2015				
Borrowings	39,794	11,067	9,477	10,873
Derivative financial instruments	4	–	58	39
Obligations under finance leases	7,377	7,101	19,183	25,167
Trade, bills and other payables	15,433	–	–	–
Total	62,608	18,168	28,718	36,079
At 31 December 2014				
Borrowings	30,204	9,751	12,532	12,170
Derivative financial instruments	–	18	59	18
Obligations under finance leases	5,453	5,174	13,165	19,272
Trade, bills and other payables	14,901	–	–	–
Total	50,558	14,943	25,756	31,460

(b) Capital risk management

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

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

The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. The debt ratios at 31 December 2015 and 2014 were as follows:

	2015 RMB million	2014 RMB million
Total liabilities	158,061	134,058
Total assets	197,992	165,829
Debt ratio	0.80	0.81

Notes to the Financial Statements

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3. Financial Risk Management (continued)

(c) Fair value estimation of financial assets and liabilities

Financial instruments not measured at fair value

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, were as follows:

	2015		2014	
	Carrying amounts	Fair values	Carrying amounts	Fair values
	RMB million	RMB million	RMB million	RMB million
Financial assets				
Deposits relating to aircraft held under operating leases included in other non-current assets	338	316	482	466
Financial liabilities				
Long-term bank borrowings	33,386	32,880	30,925	31,914
Obligations under finance leases	52,399	50,839	38,695	38,455
Total	85,785	83,719	69,620	70,369

Management assessed cash and cash equivalents, restricted bank deposits and short-term bank deposits, trade receivables, other receivables, trade and bills payable, other payables, short-term debentures, short-term bank borrowings and short-term guaranteed bonds. Given their short term nature, their carrying amounts approximated to their fair values.

The fair values of the deposits relating to aircraft held under operating leases included in other non-current assets, long-term bank borrowings and obligations under finance leases have been measured using significant observable inputs and calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Financial instruments measured at fair value

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit ratings. Derivative financial instruments, including forward currency contracts, interest rate swaps, cross currency swap are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the foreign exchange spot and forward rates and interest rate curves. As at 31 December 2015, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Notes to the Financial Statements

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3. Financial Risk Management (continued)

(c) Fair value estimation of financial assets and liabilities (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets and liabilities measured at fair value:

As at 31 December 2015

	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts (Note 39(b))	–	16	–	16
– Interest rate swaps (Note 39(a))	–	22	–	22
– Cross currency swap (Note 39(c))	–	7	–	7
Available-for-sale investments	317	–	–	317
Total	317	45	–	362
Liabilities				
Derivative financial instruments				
– Interest rate swaps (Note 39(a))	–	101	–	101

As at 31 December 2014

	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts (Note 39(b))	–	27	–	27
– Interest rate swaps (Note 39(a))	–	8	–	8
Available-for-sale investments	195	–	–	195
Total	195	35	–	230
Liabilities				
Derivative financial instruments				
– Interest rate swaps (Note 39(a))	–	95	–	95

The fair value of financial instruments traded in active markets was based on quoted market prices at the reporting dates. Available-for-sale investments are listed A share and listed H share stock investments.

The fair values of derivative financial instruments are determined by using valuation techniques. These valuation techniques use applicable models and maximise the use of observable market data where it is available and also use quoted market prices or dealer quotes for reference.

Notes to the Financial Statements

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3. Financial Risk Management (continued)

(c) Fair value estimation of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Assets and liabilities for which fair values are disclosed:

As at 31 December 2015

	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Assets				
Deposits relating to aircraft held under operating leases included in other long-term assets	–	316	–	316
Liabilities				
Long-term bank borrowings	–	32,880	–	32,880
Obligations under finance leases	–	50,839	–	50,839
Total	–	83,719	–	83,719

As at 31 December 2014

	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Assets				
Deposits relating to aircraft held under operating leases included in other long-term assets	–	482	–	482
Liabilities				
Long-term bank borrowings	–	30,925	–	30,925
Obligations under finance leases	–	38,695	–	38,695
Total	–	69,620	–	69,620

Notes to the Financial Statements

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4. Critical Accounting Estimates and Judgements

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

(a) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2.4 to the financial statements. Unused tickets are recognised in traffic revenues based on current estimates. Management periodically evaluates the balance in the SIAC and records any adjustments, which can be material, in the period the evaluation is completed.

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

(b) Frequent flyer programme

The Group operates frequent flyer programmes that provide travel awards to programme members based on accumulated miles. A portion of passengers' revenue attributable to the award of frequent flyer benefits is deferred and recognised when the miles have been redeemed or have expired. The deferral of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilisation of these benefits and estimated fair values of the unredeemed miles. Different judgements or estimates could significantly affect the estimated provision for frequent flyer programmes and the results of operations.

(c) Provision for costs of return condition checks for aircraft under operating leases

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

(d) Retirement benefits

The Group operates and maintains a defined retirement benefit plan which provides eligible retirees with benefits including retirement subsidies, transportation allowance as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognised over the employee's service period by utilising various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2.4 to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and etc.. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions.

Additional information regarding the retirement benefit plan is disclosed in Note 37 to the financial statements.

(e) Deferred income tax

In assessing the amount of deferred tax assets that need to be recognised in accordance with the accounting policy stated in Note 2.4 to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits of deductible tax loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

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4. Critical Accounting Estimates and Judgements (continued)

(f) Provision for flight equipment spare parts

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realisable value. The net realisable value is estimated based on current market condition, historical experience and the Company's future operation plan for the aircraft and related spare parts. The net realisable value may be adjusted significantly due to the change of market condition and the future plan for the aircraft and related spare parts.

(g) Depreciation of property, plant and equipment

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

Except for components related to engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

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

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2.4 to the financial statements. The recoverable amount of the cash-generating unit has been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometres yield level, load factor, aircraft utilisation rate and discount rates, etc.

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5. Revenues

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

	2015 RMB million	2014 RMB million
Traffic revenues	85,076	82,589
– Passenger	78,585	75,261
– Cargo and mail	6,491	7,328
Tour operations income	3,491	3,047
Ground service income	2,546	2,168
Cargo handling and processing income	750	512
Commission income	78	94
Others	2,028	1,775
	93,969	90,185

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6. Other Operating Income and Gains

	2015 RMB million	2014 RMB million
Subsidy income (Note 1)	4,131	3,627
Gain on disposal of property, plant and equipment	399	58
Gain on disposal of available-for-sale investments	33	–
Dividend income from available-for-sale investments	13	–
Others (Note 2)	693	–
	5,269	3,685

Note 1:

Subsidy income mainly represents (i) subsidies granted by various local governments based on certain amounts of tax paid; (ii) subsidies granted by various local governments and other parties to encourage the Group to operate certain routes to cities where these governments are located.

There are no unfulfilled conditions and other contingencies related to subsidies that were recognised for the years ended 31 December 2015 and 2014.

Note 2:

Others mainly represent (i) compensation from ticket sales agents; (ii) gain on disposal of investments in a subsidiary; and (iii) compensation from transfer of the pilots.

7. Segment Information

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

The Group has one reportable operating segment, reported as "airline transportation operations", which comprises the provision of passenger, cargo, mail delivery, ground service and cargo handling services.

Other services including primarily tour operations, air catering and other miscellaneous services are not included within the airline transportation operations segment, as their internal reports are separately provided to the CODM. The results of these operations are included in the "other segments" column.

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

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the "PRC Accounting Standards"), which differ from IFRS in certain aspects. The amount of each material reconciling items from the Group's reportable segment revenue and profit or loss, arising from different accounting policies are set out in Note 7(c) below.

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(Prepared in accordance with International Financial Reporting Standards)
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7. Segment Information (continued)

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

The segment results for the year ended 31 December 2015 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated*	Total RMB million
Reportable segment					
revenue from external customers	89,013	4,831	–	–	93,844
Inter-segment sales	555	468	(1,023)	–	–
Reportable segment revenue	89,568	5,299	(1,023)	–	93,844
Reportable segment profit before income tax	5,327	238	–	106	5,671
Other segment information					
Depreciation and amortisation	10,727	128	–	–	10,855
Impairment charges	93	1	–	134	228
Interest income	69	13	(16)	–	66
Finance expenses	1,935	270	(16)	–	2,189
Capital expenditure	37,706	591	–	–	38,297

The segment results for the year ended 31 December 2014 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated*	Total RMB million
Reportable segment					
revenue from external customers	86,031	3,715	–	–	89,746
Inter-segment sales	–	343	(343)	–	–
Reportable segment revenue	86,031	4,058	(343)	–	89,746
Reportable segment profit before income tax	3,946	32	–	142	4,120
Other segment information					
Depreciation and amortisation	9,604	131	–	–	9,735
Impairment charges	20	2	–	–	22
Interest income	61	27	–	–	88
Finance expenses	1,707	250	–	–	1,957
Capital expenditure	35,922	464	–	–	36,386

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(Prepared in accordance with International Financial Reporting Standards)
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7. Segment Information (continued)

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

The segment assets and liabilities as at 31 December 2015 and 31 December 2014 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated* RMB million	Total RMB million
At 31 December 2015					
Reportable segment assets	189,408	12,045	(8,282)	2,538	195,709
Reportable segment liabilities	156,041	10,260	(8,282)	39	158,058
At 31 December 2014					
Reportable segment assets	156,786	8,679	(3,947)	2,024	163,542
Reportable segment liabilities	130,696	7,306	(3,947)	-	134,055

* Unallocated assets primarily represent investments in associates and joint ventures, and available-for-sale investments. Unallocated results primarily represent the share of results of associates and joint ventures, income relating to available-for-sale investments and impairment charge on available-for-sale investments.

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

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

- 1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan, (collectively known as "Regional")) is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets excluding Regional is classified as international operations.
- 2) Revenue from ticket handling services, ground services, cargo handling service and other miscellaneous services are classified on the basis of where the services are performed.

	2015 RMB million	2014 RMB million
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	61,222	60,531
Regional (Hong Kong, Macau and Taiwan)	3,569	3,799
International	29,178	25,855
Total	93,969	90,185

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Since the Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities by geographic area and hence segment non-current assets and capital expenditure by geographic area are not presented. Except the aircraft, most non-current assets (except financial instruments) are registered and located in the PRC.

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7. Segment Information (continued)

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

	Note	2015 RMB million	2014 RMB million
Revenue			
Reportable segment revenue		93,844	89,746
– Reclassification of business tax and expired sales in advance of carriage	(i)	125	521
– Adjustment of business combination under common control		–	(82)
Consolidated revenue		93,969	90,185

	Note	2015 RMB million	2014 RMB million
Profit before income tax			
Reportable segment profit		5,671	4,120
– Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	(4)	(4)
– Adjustments of business combination under common control		–	(3)
Consolidated profit before income tax		5,667	4,113

	Note	2015 RMB million	2014 RMB million
Assets			
Reportable segment assets		195,709	163,542
– Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	41	45
– Difference in intangible asset arising from the acquisition of Shanghai Airlines	(iii)	2,242	2,242
Consolidated assets		197,992	165,829

		2015 RMB million	2014 RMB million
Liabilities			
Reportable segment liabilities		158,058	134,055
– Others		3	3
Consolidated liabilities		158,061	134,058

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7. Segment Information (continued)

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

Notes:

- (i) The difference represents the different classification of business tax and expired sales in advance of carriage under the PRC Accounting Standards and IFRS.
- (ii) The difference is attributable to the differences in the useful lives and residual values of aircraft and engines adopted for depreciation purposes in prior years under the PRC Accounting Standards and IFRS. Despite the depreciation policies of these assets have been unified under IFRS and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which result in the differences in the carrying amounts and related depreciation charges under IFRS and the PRC Accounting Standards.
- (iii) The difference represents the different measurement of the fair value of acquisition cost of the shares from Shanghai Airlines between the PRC Accounting standards and IFRS, which results in the different measurement of goodwill.

8. Gain on Fair Value Changes of Derivative Financial Instruments

	2015 RMB million	2014 RMB million
Interest rate swap contracts (Note 39(a))	6	11

9. Wages, Salaries and Benefits

	2015 RMB million	2014 RMB million
Wages, salaries, bonus and allowances	12,917	10,853
Employee welfare and benefits	436	238
Pension and medical insurance (Note 37(a) & (b))	2,042	2,025
Post-retirement benefits (Note 37(c))	–	(2,906)
Staff housing fund (Note (a))	817	826
Staff housing allowances (Note (b))	247	234
	16,459	11,270

Notes:

(a) Staff housing fund

In accordance with the relevant PRC housing regulations, the Group is required to contribute to the state-sponsored housing fund for its employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits.

(b) Staff housing allowances

The Group also provides staff housing allowances in cash to eligible employees. The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation or retirement, his or her entitlement would cease and any unpaid entitlement related to past service up to the date of resignation or retirement would be paid.

Notes to the Financial Statements

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9. Wages, Salaries and Benefits (continued)

(a) Emoluments of directors and supervisors

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015		
	Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Executive Directors			
Liu Shaoyong*	—	—	—
Ma Xulun	401	—	401
Xu Zhao*	—	—	—
Gu Jiadan*	—	—	—
Li Yangmin	365	—	365
Tang Bing	358	—	358
Tian Liuwen****	419	—	419
Independent non-executive Directors			
Liu Keya**	72	—	72
Ji Weidong*****	—	—	—
Shao Ruiqing*****	60	—	60
Li Ruoshan	120	—	120
Ma Weihua	120	—	120
Supervisors			
Yu Faming*	—	—	—
Xi Sheng*	—	—	—
Xu Haihua*****	298	—	298
Feng Jinxiong	610	—	610
Ba Shengji*	—	—	—
Total	2,823	—	2,823

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
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9. Wages, Salaries and Benefits (continued)

(a) Emoluments of directors and supervisors (continued)

	2014		
	Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Executive Directors			
Liu Shaoyong*	—	—	—
Ma Xulun	745	—	745
Xu Zhao*	—	—	—
Gu Jiadan*	—	—	—
Li Yangmin	669	—	669
Tang Bing	632	—	632
Independent non-executive Directors			
Liu Keya	120	—	120
Ji Weidong	120	—	120
Shao Ruiqing***	—	—	—
Li Ruoshan	120	—	120
Ma Weihua	120	—	120
Supervisors			
Yu Faming*	—	—	—
Xi Sheng*	—	—	—
Feng Jinxiong	436	—	436
Yan Taisheng***	175	—	175
Ba Shengji*	—	—	—
Total	3,137	—	3,137

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

** Mr. Liu Keya retired during the year ended 31 December 2015.

*** These directors and supervisors of the Company retired or resigned during the year ended 31 December 2014.

**** These directors and supervisors of the Company were newly appointed during the year ended 31 December 2015.

***** Mr. Ji Weidong has filed his resignation during the year ended 31 December 2015 but will fulfil his responsibility until new director being appointed by the board.

During the year ended 31 December 2015, no directors and supervisors waived their emoluments (2014: Nil).

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
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9. Wages, Salaries and Benefits (continued)

(b) Five highest paid individuals

None of the Company's directors and supervisors was among the five highest paid individuals in the Group for the year ended 31 December 2015 (2014: Nil). The emoluments payable to the five highest paid individuals were as follows:

	2015 RMB'000	2014 RMB'000
Wages, salaries, bonus and allowances	8,104	7,817

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	5	4
HK\$2,000,001 to HK\$2,500,000	–	1
	5	5

During the year ended 31 December 2015, no emoluments were paid by the Group to the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office (2014: Nil).

10. Impairment Charges

	2015 RMB million	2014 RMB million
Impairment charge on flight equipment spare parts	88	9
Impairment charge on property, plant and equipment	48	3
Impairment charge on interests in associates	33	–
Impairment charge on available-for-sale investments	100	–
Reversal of impairment charge of trade and other receivables	(41)	–
	228	12

11. Operating Profit

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

	2015 RMB million	2014 RMB million
Amortisation of intangible assets	85	69
Depreciation of property, plant and equipment		
– owned	5,350	5,688
– leased (finance leases)	4,972	3,368
Depreciation of investment properties	4	–
Amortisation of long-term deferred assets included in other non-current assets	388	555
Amortisation of lease prepayments	60	58
Consumption of flight equipment spare parts	974	712
Auditors' remuneration	17	15

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
31 December 2015

12. Finance Income

	2015 RMB million	2014 RMB million
Interest income	66	88

13. Finance Costs

	2015 RMB million	2014 RMB million
Interest on bank borrowings	1,727	1,257
Interest relating to obligations under finance leases and post-retirement benefits	867	722
Interest on bonds and debentures	483	509
Interest relating to bills payable	128	92
	3,205	2,580
Exchange losses, net (Note(b))	4,987	203
Less: amounts capitalised into advanced payments on acquisition of aircraft (Note (a))	(1,014)	(606)
amounts capitalised into construction in progress (Note (a))	(2)	(17)
	7,176	2,160

Notes:

(a) The average interest rate used for interest capitalisation was 3.09% per annum for the year ended 31 December 2015 (2014: 2.69%).

(b) The exchange losses primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases.

14. Income Tax Expense

Income tax charged to profit or loss was as follows:

	2015 RMB million	2014 RMB million
PRC income tax	737	484
Deferred taxation (Note 38)	(113)	89
	624	573

Pursuant to the "Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issues Concerning Relevant Tax Policies for Enhancing the Implementation of Western Region Development Strategy" (Cai Shui [2011] No.58), and other series of tax regulations, the enterprises, located in the western regions and engaged in the industrial activities as listed in the "Catalogue of Encouraged Industries in Western Regions", will be entitled to a reduced corporate income tax rate of 15% from 2011 to 2020 upon approval from tax authorities. China Eastern Yunnan Airlines Co., Ltd. ("CEA Yunnan"), a subsidiary of the Group, obtained approval from tax authorities and has been entitled to a reduced corporate income tax rate of 15% from 1 January 2011. The Company's branches located in Sichuan, Gansu and Xibei also obtained approval from respective tax authorities and are entitled to a reduced corporate income tax rate of 15%.

Notes to the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
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14. Income Tax Expense (continued)

The Company and subsidiaries except for CEA Yunnan, the Company's branches located in Sichuan, Gansu and Xibei and those incorporated in Hong Kong, which are subject to Hong Kong profits tax rate of 16.5% (2014: 16.5%), are generally subject to the PRC standard corporate income tax rate of 25% (2014: 25%).

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

	2015 RMB million	2014 RMB million
Profit before income tax	5,667	4,113
Tax calculated at the tax rate of 25% (2014: 25%)	1,417	1,028
Lower tax rates enacted by local authority	(156)	(41)
Share of results of associates and joint ventures	(38)	(31)
Expenses not deductible for tax	104	88
Effect in respect of post-retirement benefit plan	–	(560)
Utilisation of previously unrecognised tax losses	(1)	–
Unrecognised tax losses for the year	20	86
Utilisation of/unrecognised deductible temporary differences	(722)	3
Tax charge	624	573
Effective tax rate	11.01%	13.93%

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended 31 December 2015 and 2014, as there are avoidance of double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

15. Earnings Per Share

The calculation of basic earnings per share was based on the profit attributable to equity holders of the Company of RMB4,537 million (2014: RMB3,410 million) and the weighted average number of shares of 12,818,509,000 (2014: 12,674,269,000) in issue during the year ended 31 December 2015. The Company had no potentially dilutive options or other instruments relating to the ordinary shares in issue during the years ended 31 December 2015 and 2014.

16. Assets Classified as Held for Sale

The Group entered into several agreements with third parties to dispose certain aircraft and related engines. The aircraft and engines with an aggregate carrying amount of RMB594 million (2014: RMB4,330 million) have been recognised as assets classified as held for sale by the Group as at 31 December 2015, which are stated at the lower of their carrying amounts and their fair value less cost to sell.

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17. Intangible Assets

	Goodwill (Note) RMB million	Computer software RMB million	Total RMB million
Cost			
At 1 January 2014	11,270	495	11,765
Additions	–	79	79
At 31 December 2014	11,270	574	11,844
Additions	–	109	109
Disposals	–	(4)	(4)
At 31 December 2015	11,270	679	11,949
Accumulated amortisation			
At 1 January 2014	–	275	275
Charge for the year	–	69	69
At 31 December 2014	–	344	344
Charge for the year	–	85	85
Disposals	–	(2)	(2)
At 31 December 2015	–	427	427
Net book amount			
At 31 December 2014	11,270	230	11,500
At 31 December 2015	11,270	252	11,522

Note:

The balance represents goodwill arising from the acquisition of Shanghai Airlines. Goodwill is attributable to strengthening the competitiveness of the Group's airline transportation operations, attaining synergy through integration of the resources and providing the evolution of Shanghai international air transportation centre. For the purpose of impairment assessment, goodwill was allocated to the CGU that the Group operates and benefits from the acquisition.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on a financial budget approved by senior management. The discount rate applied to the cash flow projections is 13% (2014: 13%). The growth rate used to extrapolate the cash flows of the above cash-generating unit beyond the five-year period is 3% (2014: 5%), which includes the effect of inflation. No impairment for the goodwill was required based on the value-in-use calculation as at the reporting date.

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18. Property, Plant and Equipment

	Aircraft, engines and flight equipment			Other property, plant and equipment	Construction in progress	Total
	Owned	Held under finance leases	Buildings			
	RMB million	RMB million	RMB million			
Cost						
At 1 January 2015	71,456	67,571	8,236	7,001	2,116	156,380
Transfer from construction in progress	–	–	112	269	(381)	–
Transfer from advanced payments on acquisition of aircraft (Note 21)	9,615	15,224	–	–	–	24,839
Additions	3,770	6,752	57	413	929	11,921
Transfer to assets classified as held for sale	(783)	–	–	–	–	(783)
Transfer to investment properties (Note 19)	–	–	(344)	–	–	(344)
Transfer to other non-current assets	–	–	–	–	(881)	(881)
Disposals	(3,656)	(401)	(68)	(197)	(12)	(4,334)
At 31 December 2015	80,402	89,146	7,993	7,486	1,771	186,798
Accumulated depreciation						
At 1 January 2015	26,804	13,253	2,013	4,430	–	46,500
Charge for the year	4,565	5,061	325	371	–	10,322
Transfer to assets classified as held for sale	(292)	–	–	–	–	(292)
Transfer to investment properties (Note 19)	–	–	(46)	–	–	(46)
Disposals	(2,882)	(393)	(26)	(104)	–	(3,405)
At 31 December 2015	28,195	17,921	2,266	4,697	–	53,079
Impairment						
At 1 January 2015	326	108	–	7	–	441
Charge for the year	48	–	–	–	–	48
Disposals	(12)	–	–	–	–	(12)
At 31 December 2015	362	108	–	7	–	477
Net book amount						
At 31 December 2015	51,845	71,117	5,727	2,782	1,771	133,242
At 1 January 2015	44,326	54,210	6,223	2,564	2,116	109,439

During the year, the Group recognised an impairment loss of approximately RMB48 million relating to aircraft, engines and flight equipment (2014: RMB3 million). The recoverable amounts of these impaired aircraft, engines and flight equipment are determined at the higher of their fair value less costs to sell and value in use.

As at 31 December 2015, certain aircraft and buildings owned by the Group with an aggregate net carrying amount of approximately RMB29,147 million (2014: approximately RMB23,117 million) were pledged as collateral under certain loan arrangements (Note 34).

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18. Property, Plant and Equipment (continued)

	Aircraft, engines and flight equipment			Other property, plant and equipment	Construction in progress	Total
	Owned	Held under finance leases	Buildings			
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Cost						
At 1 January 2014	76,671	47,668	7,486	6,435	2,078	140,338
Transfer from construction in progress	19	–	814	249	(1,082)	–
Transfer from advanced payments on acquisition of aircraft (Note 21)	4,267	12,442	–	–	–	16,709
Additions	2,262	11,029	5	545	1,293	15,134
Transfer to assets classified as held for sale	(5,634)	(2,706)	–	–	–	(8,340)
Transfer to other non-current assets	–	–	–	–	(138)	(138)
Disposals	(6,129)	(862)	(69)	(228)	(35)	(7,323)
At 31 December 2014	71,456	67,571	8,236	7,001	2,116	156,380
Accumulated depreciation						
At 1 January 2014	28,858	11,862	1,769	4,130	–	46,619
Charge for the year	4,919	3,368	277	492	–	9,056
Transfer to assets classified as held for sale	(2,691)	(1,319)	–	–	–	(4,010)
Disposals	(4,282)	(658)	(33)	(192)	–	(5,165)
At 31 December 2014	26,804	13,253	2,013	4,430	–	46,500
Impairment						
At 1 January 2014	798	108	–	8	22	936
Charge for the year	3	–	–	–	–	3
Disposals	(475)	–	–	(1)	(22)	(498)
At 31 December 2014	326	108	–	7	–	441
Net book amount						
At 31 December 2014	44,326	54,210	6,223	2,564	2,116	109,439
At 1 January 2014	47,015	35,698	5,717	2,297	2,056	92,783

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19. Investment Properties

	2015 RMB million
Cost	
At 1 January 2015	–
Transfer from property, plant and equipment (Note 18)	344
At 31 December 2015	344
Accumulated depreciation	
At 1 January 2015	–
Charge for the year	(4)
Transfer from property, plant and equipment (Note 18)	(46)
At 31 December 2015	(50)
Net book amount	
At 31 December 2015	294

As of 31 December 2015, the fair value of the investment properties was RMB497,462,000 according to a valuation performed by an independent professionally qualified valuer.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

As at 31 December 2015

	Fair value measurement using			Total RMB million
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Not measured at fair value but fair value is disclosed:				
Buildings	–	–	497	497

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2014: Nil).

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19. Investment Properties (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average RMB
			2015
Buildings	Discounted cash flow method	Estimated rental value (per s.q.m. and per month) Rent growth (p.a.) Long term vacancy rate Discount rate	10.65 to 154.43 2% to 6% 0% to 5% 4% to 6%
Buildings	Market comparable method	Price per s.q.m.	14,699 to 37,000

20. Lease Prepayments

	2015 RMB million	2014 RMB million
Cost		
At 1 January	2,686	2,577
Additions	82	109
Disposals	(144)	–
At 31 December	2,624	2,686
Accumulated amortisation		
At 1 January	480	422
Charge for the year	60	58
Disposals	(10)	–
At 31 December	530	480
Net book amount		
At 31 December	2,094	2,206

Lease prepayments represent unamortised prepayments for land use rights.

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21. Advanced Payments on Acquisition of Aircraft

	2015 RMB million	2014 RMB million
At 1 January	20,260	16,296
Additions	24,772	20,067
Interest capitalised (Note 13)	1,014	606
Transfer to property, plant and equipment (Note 18)	(24,839)	(16,709)
At 31 December	21,207	20,260

22. Investments in Associates

	2015 RMB million	2014 RMB million
Unlisted investments, at cost	1,266	853
Share of net assets	277	233
	1,543	1,086

The movements in investments in associates were as follows:

	2015 RMB million	2014 RMB million
At 1 January	1,086	1,064
Additions	413	18
Share of results of associates	126	91
Share of revaluation on available-for-sale investments held by an associate	7	(1)
Disposal of associates	–	(18)
Provision for impairment	(33)	–
Dividend received during the year	(56)	(68)
At 31 December	1,543	1,086

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22. Investments in Associates (continued)

Particulars of the principal associates, which are limited liability companies, are as follows:

Company name	Place of establishment and operation and date of establishment	Registered capital		Attributable equity interest		Principal activities
		2015 Million	2014 Million	2015	2014	
Eastern Air Group Finance Co., Ltd. ("Eastern Air Finance Company")	PRC 6 December 1995	RMB2,000	RMB500	25%	25%	Provision of financial services to group companies of CEA Holding
China Eastern Air Catering Investment Co., Ltd.	PRC 17 November 2003	RMB350	RMB350	45%	45%	Provision of air catering services
Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd. ("Shanghai P&W") (Note)	PRC 28 March 2008	USD40	USD40	51%	51%	Provision of maintenance of aircraft, engine and other related components maintenance services
New Shanghai International Tower Co., Ltd.	PRC 17 November 1992	RMB167	RMB167	20%	20%	Provision of property development and management
Eastern Aviation Import & Export Co., Ltd. ("Eastern Import & Export")	PRC 9 June 1993	RMB80	RMB80	45%	45%	Provision of aviation equipment, spare parts purchase
Eastern Aviation Advertising Service Co., Ltd. ("Eastern Advertising")	PRC 4 March 1986	RMB200	RMB200	45%	45%	Provision of aviation advertising agency services
Shanghai Collins Aviation Maintenance Service Co., Ltd. ("Collins Aviation")	PRC 27 September 2002	USD7	USD7	35%	35%	Provision of airline electronic product maintenance services
Jetstar Hong Kong Airways Ltd. ("Jetstar Hong Kong")	Hong Kong 4 September 2012	USD198	USD198	33%	33%	Provision of airline services

Note:

In 2008, the Company entered into an agreement with United Technologies International Corporation ("Technologies International") to establish Shanghai P&W. Shanghai P&W has registered capital of approximately USD40 million in which the Company holds a 51% interest. According to the shareholder's agreement, Technologies International has the power to govern the financial and operating policies and in this respect the Company accounts for Shanghai P&W as an associate.

The following table illustrates the aggregate financial information of the Group's associates that were not individually material:

	2015 RMB million	2014 RMB million
Share of the associates' profit for the year	126	91
Share of the associates' other comprehensive income	7	(1)
Share of the associates' total comprehensive income	133	90
Aggregate carrying amount of the Group's interests in the associates	1,543	1,086

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23. Investments in Joint Ventures

	2015 RMB million	2014 RMB million
Unlisted investments, at cost	352	352
Share of net assets	166	153
	518	505

The movements in investments in joint ventures were as follows:

	2015 RMB million	2014 RMB million
At 1 January	505	433
Addition through the acquisition of a joint venture	–	58
Share of results	26	36
Dividend received during the year	(13)	(22)
At 31 December	518	505

Particulars of the principal joint ventures, which are limited liability companies are as follows:

Company name	Place of establishment and operation and date of establishment	Paid-up capital		Attributable equity interest		Principal activities
		2015 Million	2014 Million	2015	2014	
Shanghai Technologies Aerospace Co., Ltd. ("Technologies Aerospace") (Note)	PRC 28 September 2004	USD73	USD73	51%	51%	Provision of repair and maintenance services
Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. ("Wheels & Brakes")	PRC 28 December 1995	USD2	USD2	40%	40%	Provision of spare parts repair and maintenance services
Eastern China Kaiya System Integration Co., Ltd. ("China Kaiya")	PRC 21 May 1999	RMB10	RMB10	41%	41%	Provision of computer systems development and maintenance services
CAE Melbourne Flight Training Pty Ltd.	Australia 9 March 2007	AUD11	AUD11	50%	50%	Provision of flight training services
Shanghai Hute Aviation Technology Co., Ltd. ("Shanghai Hute")	PRC 9 April 2003	RMB30	RMB30	50%	50%	Provision of equipment maintenance services

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23. Investments in Joint Ventures (continued)

Note:

Under a joint venture agreement with a joint venture partner of Technologies Aerospace dated 10 March 2003, the Company has agreed to share the control over the economic activities of Technologies Aerospace. Any strategic financial and operating decisions relating to the activities of Technologies Aerospace require the unanimous consent of the Company and the joint venture partner.

The following table illustrates the aggregate financial information of the Group's joint ventures that were not individually material:

	2015 RMB million	2014 RMB million
Share of the joint ventures' profit for the year	26	36
Share of the joint ventures' total comprehensive income	26	36
Aggregate carrying amount of the Group's interests in the joint ventures	518	505

24. Available-for-sale Investments

	2015 RMB million	2014 RMB million
Listed equity investments, at fair value	317	195
Unlisted equity investments, at cost (Note)	135	238
	452	433

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB122 million (2014: RMB18 million).

The above investments consist of investments in equity securities which were designated as available-for-sale investments and have no fixed maturity date or coupon rate.

Note:

As at 31 December 2015, certain unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

25. Other Non-Current Assets

	2015 RMB million	2014 RMB million
Deposits relating to aircraft held under operating leases	338	482
Deferred pilot recruitment costs	1,243	1,140
Rebate receivables on aircraft acquisitions	974	132
Rental prepayment	450	-
Prepayment for acquisition of property, plant and equipment	156	-
Other long term assets	593	203
	3,754	1,957

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26. Flight Equipment Spare Parts

	2015 RMB million	2014 RMB million
Flight equipment spare parts	2,597	2,924
Less: provision for spare parts	(541)	(665)
	2,056	2,259

Movements in the Group's provision for impairment of flight equipment spare parts were as follows:

	2015 RMB million	2014 RMB million
At 1 January	665	657
Accrual (Note 10)	88	9
Provision written off in relation to disposal of spare parts	(212)	(1)
At 31 December	541	665

27. Trade Receivables

The credit terms given to trade customers are determined on an individual basis.

The ageing analysis of trade receivables was as follows:

	2015 RMB million	2014 RMB million
Within 90 days	2,608	1,539
91 to 180 days	105	1,774
181 to 365 days	90	456
Over 365 days	280	299
	3,083	4,068
Provision for impairment of receivables	(216)	(206)
Trade receivables	2,867	3,862

Balances with related parties included in trade receivables are summarised in Note 47(c)(i).

The carrying amounts of the trade receivables approximated to their fair values.

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

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27. Trade Receivables (continued)

As at 31 December 2015, trade receivables of RMB267 million (2014: RMB262 million) were past due but not impaired. These relate to a number of independent sales agents for whom there was no recent history of default. The Group holds cash deposits of RMB540 million (2014: RMB462 million) from these agents. The ageing analysis of these trade receivables was as follows:

	2015 RMB million	2014 RMB million
Past due:		
Within 90 days	213	161
91 to 180 days	28	40
181 to 365 days	26	61
	267	262

As at 31 December 2015, trade receivables of RMB42 million (2014: RMB155 million) were impaired and fully provided for. The remaining impaired trade receivables of RMB260 million relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

Movements in the Group's provision for impairment of trade receivables were as follows:

	2015 RMB million	2014 RMB million
At 1 January	206	198
Receivables written off during the year as uncollectible	(2)	(1)
Impairment losses recognised	12	9
At 31 December	216	206

The net impacts of creation and release of provisions for impaired receivables have been included in "Reversal of impairment charge of trade and other receivables" in profit or loss (Note 10). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

	2015 RMB million	2014 RMB million
Currency		
Renminbi	2,866	3,844
Japanese Yen	5	7
US Dollars	52	61
Euro	92	97
Hong Kong Dollars	–	2
Other currencies	68	57
	3,083	4,068

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

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28. Prepayments and Other Receivables

	2015 RMB million	2014 RMB million
VAT recoverable	2,226	1,750
Prepaid corporate income tax	413	–
Advance to suppliers	379	540
Prepaid aircraft operating lease rentals	346	333
Dividend receivable	22	33
Rebate receivables on aircraft acquisitions	1,610	1,253
Rental deposits	278	271
Amounts due from related parties (Note 47(c)(i))	139	169
Deposits relating to aircraft held under operating leases	145	98
Others	3,127	2,239
Subtotal	8,685	6,686
Provision for impairment of other receivables	(239)	(292)
	8,446	6,394

During the year, the reversal of impairment charge in respect of recovery of rental deposits from previous years amounted to RMB53 million (2014: Nil).

29. Restricted Bank Deposits and Short-Term Bank Deposits

	2015 RMB million	2014 RMB million
Bank deposits with original maturity over a year	2	4
Restricted bank deposits	33	34
	35	38

Note:

As at 31 December 2015, the deposits bore effective interest rates ranging from 0.35% to 3.50% per annum (2014: 0.35% to 3.50%).

The carrying amounts of the Group's restricted bank deposits and short-term bank deposits were denominated in the following currency:

	2015 RMB million	2014 RMB million
Renminbi	35	38

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30. Cash and Cash Equivalents

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

	2015 RMB million	2014 RMB million
Renminbi	1,013	711
US Dollars	7,755	490
Euro	56	45
Japanese Yen	36	16
Hong Kong Dollars	39	23
Other currencies	181	70
	9,080	1,355

31. Trade and Bills Payables

The ageing analysis of trade and bills payables was as follows:

	2015 RMB million	2014 RMB million
Within 90 days	2,060	764
91 to 180 days	348	309
181 to 365 days	461	240
1 to 2 years	414	420
Over 2 years	429	350
	3,712	2,083

As at 31 December 2015, trade and bills payable balances included amounts due to related parties of RMB897 million (2014: RMB186 million) (Note 47(c)(ii)).

As at 31 December 2015, bills payable amounted to RMB800 million (2014: Nil).

Notes to the Financial Statements

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32. Other Payables and Accruals

	2015 RMB million	2014 RMB million
Salaries, wages and benefits	3,602	2,826
Take-off and landing charges	2,302	1,661
Fuel cost	878	1,879
Expenses related to aircraft overhaul conducted	1,703	1,807
Advance from customers	1,059	841
Duties and levies payable	2,077	1,617
Other accrued operating expenses	2,255	3,777
Deposits received from ticket sales agents	841	867
Current portion of other long-term liabilities (Note 36)	515	585
Staff housing allowance	420	315
Amounts due to related parties (Note 47(c)(ii))	1,305	1,483
Current portion of post-retirement benefit obligations (Note 37(c))	181	210
Others	1,919	1,347
	19,057	19,215

33. Obligations Under Finance Leases

As at 31 December 2015, the Group had 213 aircrafts (2014: 167 aircrafts) under finance leases. Under the terms of the leases, the Group has the option to purchase, at or near the end of the lease terms, certain aircraft at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

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

	Minimum lease payments 2015 RMB million	Present values of minimum lease payments 2015 RMB million	Minimum lease payments 2014 RMB million	Present values of minimum lease payments 2014 RMB million
Within one year	7,377	6,109	5,453	4,596
In the second year	7,101	5,942	5,174	4,411
In the third to fifth years, inclusive	19,183	16,679	13,165	11,482
After the fifth year	25,167	23,669	19,272	18,206
Total	58,828	52,399	43,064	38,695
Less: amount repayable within one year	(7,377)	(6,109)	(5,453)	(4,596)
Long-term portion	51,451	46,290	37,611	34,099

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34. Borrowings

	2015 RMB million	2014 RMB million
Non-current		
Long-term bank borrowings		
– secured (Note (a))	14,766	14,725
– unsecured	5,642	5,503
Guaranteed bonds (Note (b))	8,090	10,285
	28,498	30,513
Current		
Current portion of long-term bank borrowings		
– secured (Note (a))	2,609	2,254
– unsecured	10,369	8,443
Short-term bank borrowings		
– unsecured	7,537	13,979
Short-term debentures (Note (c))	15,500	4,000
Guaranteed bonds (Note (b))	2,199	–
	38,214	28,676
Total borrowings	66,712	59,189
The borrowings are repayable as follows:		
Within one year	38,214	28,676
In the second year	10,306	8,801
In the third to fifth years inclusive	8,224	10,868
After the fifth year	9,968	10,844
Total borrowings	66,712	59,189

Notes:

(a) As at 31 December 2015, the secured bank borrowings of the Group were pledged by the related aircraft and buildings with an aggregate carrying amount of RMB29,147 million (2014: RMB23,117 million) (Note 18).

(b) On 18 March 2013, the Company issued ten-year guaranteed bonds with a principal amount of RMB4.8 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 5.05% per annum, which are payable annually. The principal of the bonds will mature and be repayable on 18 March 2023. CEA Holding has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (Note 47(d)).

On 5 June 2013, Eastern Air Overseas issued three-year guaranteed bonds with a principal amount of RMB2.2 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 3.875% per annum, which are payable semi-annually. The principal of the bonds will mature and become repayable on 5 June 2016. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

On 6 March 2014, Eastern Air Overseas issued three-year guaranteed bonds with a principal amount of RMB2.5 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 4.80% per annum, which are payable semi-annually. The principal of the bonds will mature and become repayable on 13 March 2017. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

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34. Borrowings (continued)

Notes: (continued)

(b) (continued)

On 14 May 2014, Eastern Air Overseas issued three-year guaranteed bonds with a principal amount of RMB0.8 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 4.80% per annum, which are payable semi-annually. The principal of the bonds will mature and become repayable on 14 May 2017. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

(c) On 26 June 2015, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 270 days. The debentures bear interest at the rate of 3.50% per annum.

On 25 September 2015, the Company issued short-term debentures with a principal of RMB2.5 billion and maturity of 270 days. The debentures bear interest at the rate of 3.30% per annum.

On 27 October 2015, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 270 days. The debentures bear interest at the rate of 3.00% per annum.

On 20 November 2015, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 270 days. The debentures bear interest at the rate of 3.10% per annum.

On 27 November 2015, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 180 days. The debentures bear interest at the rate of 3.00% per annum.

On 28 December 2015, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 270 days. The debentures bear interest at the rate of 2.87% per annum.

On 30 December 2015, the Company issued short-term debentures with a principal of RMB1 billion and maturity of 270 days. The debentures bear interest at the rate of 2.83% per annum.

The terms of the long-term borrowings were summarised as follows:

Interest rate and final maturities		2015	2014
		RMB million	RMB million
Long-term bank borrowings			
RMB denominated	interest rates ranging from 5.75% to 5.90% with final maturities through 2023 (2014: 5.54% to 5.99%)	280	420
USD denominated	interest rates ranging from 6 months libor +0.50% to 6 months libor +3.75% with final maturities through 2025 (2014: 6 months libor +0.55% to 6 months libor +5.30%)	33,106	30,505
Guaranteed bonds			
RMB denominated	interest rates ranging from 3.88% to 5.05% with final maturities through 2023 (2014: 3.88% to 5.05%)	10,289	10,285
Total long-term borrowings		43,675	41,210

Short-term borrowings of the Group are repayable within one year. As at 31 December 2015, the interest rates relating to such borrowings ranged from 1.49% to 3.48% per annum (2014: 1.01% to 5.35% per annum).

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34. Borrowings (continued)

The carrying amounts of the borrowings were denominated in the following currencies:

	2015 RMB million	2014 RMB million
Renminbi	29,769	16,205
US Dollars	36,943	42,984
	66,712	59,189

35. Provision for Return Condition Checks for Aircraft Under Operating Leases

	2015 RMB million	2014 RMB million
At 1 January	3,884	4,217
Accrual	968	1,122
Utilisation	(1,349)	(1,455)
At 31 December	3,503	3,884
Less: current portion	(1,281)	(1,267)
Long-term portion	2,222	2,617

In respect of aircraft and engines under operating leases, the Group has obligations to fulfil certain return conditions under the leases. The balance as at 31 December 2015 and 2014 represented the provision for the estimated cost of these return condition checks which is made on a straight-line basis over the term of the leases.

36. Other Long-Term Liabilities

	2015 RMB million	2014 RMB million
Fair value of unredeemed points awarded under the Group's frequent flyer program	1,739	1,720
Long-term duties and levies payable relating to finance leases	1,713	1,120
Other long-term payables	1,053	501
	4,505	3,341
Less: current portion included in other payables and accrued expenses (Note 32)	(515)	(585)
Long-term portion	3,990	2,756

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37. Pension, Medical Insurance and Post-Retirement Benefits

(a) Pension

The group companies participate in defined contribution retirement schemes organised by municipal governments of various provinces in which the group companies operate. Substantially all of the Group's PRC employees are eligible to participate in this defined contribution retirement schemes. In addition, the group companies implemented an additional defined contribution retirement pension scheme for eligible employees in 2015. For the year ended 31 December 2015, the Group's pension costs charged to profit or loss amounted to RMB1,479 million (2014: RMB1,492 million).

(b) Medical insurance

Majority of the Group's PRC employees participate in the medical insurance schemes organised by municipal governments. For the year ended 31 December 2015, the Group's medical insurance contributions charged to profit or loss amounted to RMB563 million (2014: RMB533 million).

(c) Post-retirement benefits

In addition to the above schemes, the Group provides eligible retirees with other post-retirement benefits, including retirement subsidies, transportation allowance as well as other welfare. The expected cost of providing these post-retirement benefits is actuarially determined and recognised by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and etc.

The plan is exposed to interest rate risk and the risk of changes in the life expectancy for pensioners.

The most recent actuarial valuation of the post-retirement benefit obligations was carried out at 31 December 2015 with assistance from a third party consultant using the projected unit credit actuarial valuation method.

The post-retirement benefit obligations recognised in the consolidated statement of financial position are as follows:

	2015 RMB million	2014 RMB million
Post-retirement benefit obligations	2,750	3,032
Less: current portion	(181)	(210)
Long-term portion	2,569	2,822

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37. Pension, Medical Insurance and Post-Retirement Benefits (continued)

(c) Post-retirement benefits (continued)

The principal actuarial assumptions utilised as at the end of the reporting period are as follows:

	2015	2014
Discount rates for post-retirement benefits	3.30%	3.40%-4.20%
Mortality rate	China Insurance Life Mortality Table (2000-2003). CL3 for Male and CL4 for Female	China Insurance Life Mortality Table (2000-2003). CL3 for Male and CL4 for Female
Annual increase rate of medical expenses due to age	2.50%	2.50%
Annual increase rate of post-retirement medical expenses	6.50%	7.00%
Inflation rate of pension benefits	2.50%	3.00%

A quantitative sensitivity analysis for significant assumptions at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in post-retirement benefit obligation RMB million	Decrease in rate %	Increase/ (decrease) in post-retirement benefit obligation RMB million
2015				
Discount rate for post-retirement benefits	0.25	(86)	0.25	90
Annual increase rate of pension benefits	1.00	292	1.00	(247)
Annual increase rate of medical expenses	1.00	41	1.00	(34)
2014				
Discount rate for post-retirement benefits	0.25	(88)	0.25	92
Annual increase rate of pension benefits	1.00	314	1.00	(266)
Annual increase rate of medical expenses	1.00	57	1.00	(47)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net post-retirement benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Expected contributions to be made in the future years out of the post-retirement benefit obligations were as follows:

	2015 RMB million	2014 RMB million
Within the next 12 months	181	210
Between 2 and 5 years	662	820
Between 5 and 10 years	831	966
Over 10 years	2,739	3,370
Total expected payments	4,413	5,366

The average duration of the post-retirement benefit obligations at the end of 2015 was 13 years (2014: 12 years).

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37. Pension, Medical Insurance and Post-Retirement Benefits (continued)

(c) Post-retirement benefits (continued)

The movements in the post-retirement benefit obligations were as follows:

2015

	Pension cost charged to profit or loss				Remeasurement (gains)/losses in other comprehensive income					Benefit settled	31 December 2015
	1 January 2015	Service cost	Net interest	Sub-total included in profit or loss	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Experience adjustments	Sub-total included in other comprehensive income			
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Defined benefit obligations/ benefit liability	3,032	-	114	114	-	56	(252)	(196)	(200)	2,750	

2014

	Pension cost charged/(credited) to profit or loss					Remeasurement (gains)/losses in other comprehensive income					Benefit settled	31 December 2014
	1 January 2014	Service cost/ investment income	Net interest	Curtailment	Sub-total included in profit or loss	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Experience adjustments	Sub-total included in other comprehensive income			
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Defined benefit obligations	5,941	223	294	(3,251)	(2,734)	-	407	(195)	212	(387)	3,032	
Fair value of plan assets	(122)	-	-	122	122	-	-	-	-	-	-	
Benefit liability	5,819	223	294	(3,129)	(2,612)	-	407	(195)	212	(387)	3,032	

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38. Deferred Taxation

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

	2015 RMB million	2014 RMB million
Deferred tax assets	243	170
Deferred tax liabilities	(8)	(26)
Net deferred tax assets	235	144

Movements in the net deferred tax assets were as follows:

	2015 RMB million	2014 RMB million
At 1 January	144	360
Credited/(charged) to profit or loss (Note 14)	113	(89)
Charged to other comprehensive income	(22)	(127)
At 31 December	235	144

The deferred tax assets and liabilities (prior to the offsetting of balances within the same tax jurisdiction) were made up of the taxation effects of the following:

	2015 RMB million	2014 RMB million
Deferred tax assets:		
Impairment provision for flight equipment spare parts	43	32
Impairment provision for receivables	80	23
Impairment provision for property, plant, and equipment	26	23
Derivative financial instruments	25	9
Impairment provision for available-for-sale investments	25	-
Other payables and accruals	89	183
Tax losses	133	96
	421	366
Deferred tax liabilities:		
Depreciation and amortisation	(136)	(208)
Available-for-sale investments	(39)	(5)
Derivative financial instruments	(11)	(9)
	(186)	(222)
	235	144

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38. Deferred Taxation (continued)

Movements in the net deferred tax assets of the Group for the year were as follows:

	At the beginning of the year RMB million	(Charged)/ credited to profit or loss RMB million	(Charged)/ credited to other comprehensive income RMB million	At the end of the year RMB million
For the year ended 31 December 2015				
Impairment provision for flight equipment spare parts	32	11	–	43
Impairment provision for receivables	23	57	–	80
Impairment provision for property, plant and equipment	23	3	–	26
Derivative financial instruments	9	(7)	23	25
Impairment provision for available-for-sale investments	–	25	–	25
Other payables and accruals	183	(94)	–	89
Tax losses	96	37	–	133
	366	32	23	421
Depreciation and amortisation	(208)	72	–	(136)
Available-for-sale investments	(5)	–	(34)	(39)
Derivative financial instruments	(9)	9	(11)	(11)
	(222)	81	(45)	(186)
Net deferred tax assets	144	113	(22)	235

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38. Deferred Taxation (continued)

	At the beginning of the year RMB million	(Charged)/ credited to profit or loss RMB million	Charged to other comprehensive income RMB million	At the end of the year RMB million
For the year ended 31 December 2014				
Impairment provision for flight equipment spare parts	24	8	–	32
Impairment provision for receivables	20	3	–	23
Impairment provision for property, plant and equipment	39	(16)	–	23
Derivative financial instruments	17	(8)	–	9
Other payables and accruals	146	37	–	183
Provision for post-retirement benefits	426	(304)	(122)	–
Tax losses	–	96	–	96
	672	(184)	(122)	366
Depreciation and amortisation	(295)	87	–	(208)
Available-for-sale investments	–	–	(5)	(5)
Derivative financial instruments	(17)	8	–	(9)
	(312)	95	(5)	(222)
Net deferred tax assets	360	(89)	(127)	144

As at the reporting date, the Group had the following balances in respect of which deferred tax assets have not been recognised:

	2015		2014	
	Deferred taxation RMB million	Temporary differences RMB million	Deferred taxation RMB million	Temporary differences RMB million
Tax losses carried forward	489	1,956	473	1,891
Other deductible temporary differences	49	195	671	2,685
Total unrecognised deferred tax assets	538	2,151	1,144	4,576

In accordance with the PRC tax law, tax losses can be carried forward, for a period of five years, to offset against future taxable income. The Group's tax losses carried forward will expire between 2016 and 2020.

As at 31 December 2015, management carried out an assessment to determine whether future taxable profits will be available to utilise the tax losses and deductible temporary differences. As there are still uncertainties around the Group's future operating results, such as future fuel prices and market competition, management assessed that there are significant uncertainties that future taxable profits will be available and the deferred tax assets arising from aforementioned tax losses and deductible temporary differences were not recognised.

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39. Derivative Financial Instruments

	Assets		Liabilities	
	2015 RMB million	2014 RMB million	2015 RMB million	2014 RMB million
At 31 December				
Interest rate swaps (Note (a))	22	8	101	95
Forward foreign exchange contracts (Note (b))	16	27	–	–
Cross currency swap (Note (c))	7	–	–	–
Total	45	35	101	95
Less: current portion				
– Interest rate swaps	–	–	(4)	–
– Forward foreign exchange	–	(5)	–	–
	–	(5)	(4)	–
Non-current portion	45	30	97	95

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated statement of financial position.

Notes:

(a) Interest rate swaps

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3). The interest rate swaps entered into by the Group for swapping floating interest rates, usually referenced to LIBOR, into fixed rates are accounted for as cash flow hedges. Other interest rate swaps are accounted for as fair value hedges. As at 31 December 2015, the notional amount of the outstanding interest rate swap agreements was approximately USD1,466 million (2014: USD801 million). These agreements will expire between 2016 and 2025.

Realised and unrealised gains and losses arising from the valuation of these interest rate swaps have been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 RMB million	2014 RMB million
Realised losses (recorded in finance costs)	(134)	(80)
Unrealised mark to market gains/(losses)		
– cash flow hedges (recognised in other comprehensive income)	2	(28)
– fair value hedges (recognised in gain on fair value changes of derivative financial instruments)	6	11
	(126)	(97)

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39. Derivative Financial Instruments (continued)

Notes: (continued)

(b) Foreign exchange forward contracts

The Group uses foreign exchange forward contracts to reduce the risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3). The Group's foreign exchange forward contracts for selling foreign currency (i.e., Japanese Yen) and purchasing US dollars at fixed exchange rates are accounted for as cash flow hedges. As at 31 December 2015, the notional amount of the outstanding currency forward contracts was approximately USD12 million (2014: USD39 million), which will expire in 2017.

Realised and unrealised gains and losses arising from the valuation of these contracts have been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 RMB million	2014 RMB million
Realised gains/(losses) (recorded in finance income/(costs))	15	(2)
Unrealised mark to market (losses)/gains – cash flow hedges (recognised in other comprehensive income)	(11)	17
	4	15

(c) Cross currency swap

The Group uses cross currency swap to reduce the risk of changes in currency exchange rates and market interest rates (Note 3). The cross currency swap entered into by the Group for swapping US dollars floating interest rates (LIBOR) into Euro floating interest rates (EURIBOR), is accounted for as a cash flow hedge. As at 31 December 2015, the notional amount of the outstanding cross currency swap agreement was approximately USD38 million (2014: Nil). The agreement will expire in 2025.

Unrealised gain and loss arising from the valuation of the contract has been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 RMB million	2014 RMB million
Unrealised mark to market gain – cash flow hedge (recognised in other comprehensive income)	7	–

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40. Financial Instruments by Category

2015	Loans and Receivables RMB million	Assets at fair value through profit or loss RMB million	Derivatives used for hedging RMB million	Available for sale RMB million	Total RMB million
Financial assets					
Available-for-sale investments	–	–	–	452	452
Derivative financial instruments	–	–	45	–	45
Trade receivables	2,867	–	–	–	2,867
Other receivables	3,438	–	–	–	3,438
Restricted bank deposits and short-term bank deposits	35	–	–	–	35
Cash and cash equivalents	9,080	–	–	–	9,080
Other non-current assets	338	–	–	–	338
Total	15,758	–	45	452	16,255

2015	Loans and receivables RMB million	Liabilities at fair value through profit or loss RMB million	Derivatives used for hedging RMB million	Other financial liabilities at amortised cost RMB million	Total RMB million
Financial liabilities					
Borrowings	66,712	–	–	–	66,712
Obligations under finance leases	52,399	–	–	–	52,399
Derivative financial instruments	–	2	99	–	101
Trade and bills payables	3,712	–	–	–	3,712
Other payables	11,721	–	–	–	11,721
Total	134,544	2	99	–	134,645

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40. Financial Instruments by Category (continued)

2014	Loans and Receivables RMB million	Assets at fair value through profit or loss RMB million	Derivatives used for hedging RMB million	Available for sale RMB million	Total RMB million
Financial assets					
Available-for-sale investments	–	–	–	433	433
Derivative financial instruments	–	–	35	–	35
Trade receivables	3,862	–	–	–	3,862
Other receivables	1,313	–	–	–	1,313
Restricted bank deposits and short-term bank deposits	38	–	–	–	38
Cash and cash equivalents	1,355	–	–	–	1,355
Other non-current assets	528	–	–	–	528
Total	7,096	–	35	433	7,564

2014	Loans and receivables RMB million	Liabilities at fair value through profit or loss RMB million	Derivatives used for hedging RMB million	Other financial liabilities at amortised cost RMB million	Total RMB million
Financial liabilities					
Borrowings	59,189	–	–	–	59,189
Obligations under finance leases	38,695	–	–	–	38,695
Derivative financial instruments	–	8	87	–	95
Trade and bills payables	2,083	–	–	–	2,083
Other payables	12,818	–	–	–	12,818
Total	112,785	8	87	–	112,880

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41. Share Capital

	2015 RMB million	2014 RMB million
Registered, issued and fully paid of RMB1.00 each		
A shares listed on The Shanghai Stock Exchange ("A Shares")	8,481	8,481
– Tradable shares held by CEA Holding with trading moratorium	242	242
– Tradable shares held by CES Finance Holding Co., Ltd. with trading moratorium	457	457
– Tradable shares without trading moratorium	7,782	7,782
H shares listed on The Stock Exchange of Hong Kong Limited ("H Shares")	4,659	4,193
– Tradable shares held by CES Global Holdings (Hong Kong) Limited with trading moratorium	699	699
– Tradable shares held by Delta Air Lines, Inc. without trading moratorium	466	–
– Tradable shares without trading moratorium	3,494	3,494
	13,140	12,674

Pursuant to articles 49 and 50 of the Company's articles of association, both the listed A shares and listed H shares are registered ordinary shares and carry equal rights.

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue
At 1 January 2014, 31 December 2014 and 1 January 2015	12,674
Issue of shares	466
At 31 December 2015	13,140

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42. Reserves

	Share Premium	Capital reserve (Note (a))	Hedging reserve	Statutory reserve (Note (b))	Other reserve	Retained profits/ (accumulated losses)	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2014	20,190	(778)	(50)	–	(2,539)	(2,595)	14,228
Unrealised losses on cash flow hedges	–	–	(11)	–	–	–	(11)
Fair value movements of available-for-sale investments	–	–	–	–	14	–	14
Actuarial losses on post- retirement benefit obligations	–	–	–	–	(341)	–	(341)
Profit for the year	–	–	–	–	–	3,410	3,410
At 31 December 2014	20,190	(778)	(61)	–	(2,866)	815	17,300
At 1 January 2015	20,190	(778)	(61)	–	(2,866)	815	17,300
Unrealised gains on cash flow hedges	–	–	10	–	–	–	10
Fair value movements of available-for-sale investments	–	–	–	–	82	–	82
Fair value changes of available- for-sale investments held by an associate	–	–	–	–	7	–	7
Actuarial gains on post- retirement benefit obligations	–	–	–	–	198	–	198
Acquisition of non-controlling interests	(252)	–	–	–	–	–	(252)
Transfer from retained profits	–	–	–	184	–	(184)	–
Issue of shares	2,389	–	–	–	–	–	2,389
Profit for the year	–	–	–	–	–	4,537	4,537
At 31 December 2015	22,327	(778)	(51)	184	(2,579)	5,168	24,271

Notes:

(a) Capital reserve

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

(b) Reserve funds

According to the PRC Company Law, the Company is required to transfer a portion of the profits to the statutory reserve. The transfer to this reserve must be made before distribution of dividend to shareholders and when there are retained profits at the end of the financial year.

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43. Disposal of a Subsidiary

	2015 RMB million
Net assets disposed of:	
Cash and bank balances	8
Lease prepayments	137
Other payables and accruals	(137)
Gain on disposal of a subsidiary	41
	49

	2015 RMB million
Satisfied by:	
Cash	49

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2015 RMB million
Cash consideration	49
Cash and bank balances disposed of	(8)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	41

44. Partly-owned Subsidiaries with Material Non-controlling Interests

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2015	2014
Percentage of equity interest held by non-controlling interests:		
CEA Jiangsu	37.44%	37.44%
CEA Yunnan	9.64%	9.64%
CEA Wuhan	40.00%	40.00%
China Cargo	17%	49%

	2015 RMB million	2014 RMB million
Profit/(loss) for the year allocated to non-controlling interests:		
CEA Jiangsu	174	156
CEA Yunnan	120	31
CEA Wuhan	207	137
China Cargo	2	(160)
Dividends paid to non-controlling interests of CEA Jiangsu	37	20
Accumulated balances of non-controlling interests at the reporting dates:		
CEA Jiangsu	1,104	966
CEA Yunnan	499	379
CEA Wuhan	1,074	865
China Cargo	(132)	(378)

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44. Partly-owned Subsidiaries with Material Non-controlling Interests (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2015	CEA Jiangsu RMB million	CEA Yunnan RMB million	CEA Wuhan RMB million	China Cargo RMB million
Revenue	6,431	9,518	3,486	4,325
Total expenses	5,965	8,273	2,968	4,316
Profit for the year	466	1,245	518	9
Total comprehensive income for the year	469	1,245	521	12
Current assets	2,080	2,936	2,570	1,314
Non-current assets	8,149	14,880	3,412	1,724
Current liabilities	2,444	4,565	1,307	2,875
Non-current liabilities	4,836	8,073	1,991	923
Net cash flows from operating activities	574	2,293	257	702
Net cash flows from/(used in) investing activities	74	(1,371)	(114)	(71)
Net cash flows used in financing activities	(617)	(934)	(145)	(668)
Effect of foreign exchange rate changes, net	1	14	–	1
Net increase/(decrease) in cash and cash equivalents	32	2	(2)	(36)
2014	CEA Jiangsu RMB million	CEA Yunnan RMB million	CEA Wuhan RMB million	China Cargo RMB million
Revenue	6,435	9,133	3,346	5,285
Total expenses	6,019	8,812	3,003	5,612
Profit/(loss) for the year	416	321	343	(327)
Total comprehensive income for the year	332	321	302	(368)
Current assets	1,666	1,730	1,036	1,483
Non-current assets	6,347	10,385	3,134	1,881
Current liabilities	2,241	3,240	855	3,185
Non-current liabilities	3,192	4,941	1,153	951
Net cash flows from operating activities	812	1,162	188	(361)
Net cash flows used in investing activities	(454)	(849)	(2)	(59)
Net cash flows (used in)/from financing activities	(402)	(541)	(152)	180
Effect of foreign exchange rate changes, net	–	(25)	–	–
Net (decrease)/increase in cash and cash equivalents	(44)	(253)	34	(240)

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45. Notes to the Statement of Consolidated Cash Flows

(a) Cash generated from operations

	2015 RMB million	2014 RMB million
Profit before income tax	5,667	4,113
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of other non-current assets	10,710	9,056
Amortisation of intangible assets	85	69
Depreciation of investment properties	4	–
Amortisation of lease prepayments	60	58
(Gains)/losses on disposal of property, plant and equipment	(378)	25
Gain on disposal of investments in a subsidiary	(41)	–
Gain on disposal of available-for-sale investments	(33)	–
Dividend income from available-for-sale investments	(13)	–
Share of results of associates	(126)	(91)
Share of results of joint ventures	(26)	(36)
Net foreign exchange losses	5,480	203
Gain on fair value changes of derivative financial instruments	(6)	(11)
Reversal of post-retirement benefits	–	(2,612)
Impairment charges	228	22
Interest income	(66)	(88)
Interest expense	2,075	1,957
Operating profit before working capital changes	23,620	12,665
Changes in working capital		
Flight equipment spare parts	117	(37)
Trade receivables	985	(345)
Prepayments and other receivables	(2,011)	(1,314)
Restricted bank deposits and short-term bank deposits	–	345
Sales in advance of carriage	777	1,491
Trade and bills payables	1,629	(720)
Other payables and accruals	(234)	1,024
Staff housing allowances	105	45
Other long-term liabilities	1,164	145
Post-retirement benefit obligations	(282)	(387)
Provision for return condition checks for aircraft under operating leases	(381)	(333)
Operating lease deposits	46	188
Cash generated from operations	25,535	12,767

(b) Major non-cash transactions

	2015 RMB million	2014 RMB million
Finance lease obligations incurred for acquisition of aircraft	21,887	19,905

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46. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	2015 RMB million	2014 RMB million
Contracted for:		
– Aircraft, engines and flight equipment (Note)	106,666	105,011
– Other property, plant and equipment	3,923	3,108
– Investment	–	38
	110,589	108,157

Note:

Contracted expenditures for the above aircraft, engines and flight equipment, including deposits prior to delivery, subject to future inflation increase built into the contracts were expected to be paid as follows:

	2015 RMB million	2014 RMB million
Within one year	23,781	25,830
In the second year	26,642	18,249
In the third year	25,579	14,833
In the fourth year	18,793	16,119
Over four years	11,871	29,980
	106,666	105,011

The above capital commitments represent the future outflow of cash or other resources.

(b) Operating lease commitments

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

	2015 RMB million	2014 RMB million
Aircraft, engines and flight equipment		
Within one year	4,308	3,818
In the second year	3,676	3,508
In the third to fifth years, inclusive	7,962	8,022
After the fifth year	8,977	8,682
	24,923	24,030
Land and buildings		
Within one year	299	202
In the second year	219	164
In the third to fifth years, inclusive	410	382
After the fifth year	814	1,983
	1,742	2,731
	26,665	26,761

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47. Related Party Transactions

The Group is controlled by CEA Holding, which directly owns 38.61% of the Company's shares as at 31 December 2015 (2014: 40.03%). In addition, through CES Global Holdings (Hong Kong) Limited and CES Finance Holding Co., Ltd., two wholly-owned subsidiaries of CEA Holding, CEA Holding indirectly owns additional approximately 19.99% and 3.48% of the Company's shares respectively as at 31 December 2015 (2014: 20.72% and 3.61%).

The Company is a state-owned enterprise established in the PRC and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 "Related Party Disclosures", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include CEA Holding and its subsidiaries (other than the Group), other government-related entities and their subsidiaries ("Other State-owned Enterprises"), other entities and corporations over which the Company is able to control or exercise significant influence and key management personnel of the Company as well as their close family members.

For the purpose of the related party transaction disclosures, the directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed.

(a) Nature of related parties that do not control or controlled by the Group:

Name of related party	Relationship with the Group
Eastern Air Finance Company	Associate of the Company
Eastern Import & Export	Associate of the Company
Shanghai P&W	Associate of the Company
Eastern Advertising	Associate of the Company
Jetstar Hong Kong	Associate of the Company
Collins Aviation	Associate of the Company
Shanghai Dongmei Air Travel Co., Ltd. ("Shanghai Dongmei")	Associate of the Company (acquired by the Group and became a wholly-owned subsidiary in August 2014)
Wheels & Brakes	Joint venture of the Company
Technologies Aerospace	Joint venture of the Company
China Kaiya	Joint venture of the Company
Shanghai Hute	Joint venture of the Company
CEA Development Co., Ltd. ("CEA Development")	Controlled by the same parent company
China Eastern Air Catering Investment Co., Ltd. and its subsidiaries ("Eastern Air Catering")	Controlled by the same parent company
CES International Financial Leasing Corporation Limited ("CES Lease Company")	Controlled by the same parent company
Shanghai Eastern Airlines Investment Co., Ltd. ("Eastern Investment")	Controlled by the same parent company
Eastern Airlines Tourism Investment (Group) Co., Ltd. ("Eastern Tourism")	Controlled by the same parent company
Beijing Eastern Airlines Investment Co., Ltd. ("Beijing Dongtou")	Controlled by the same parent company (acquired by the Eastern Investment in August 2015)
Travelsky Technology Limited ("Travelsky")	A director and vice president of the Company is a director of Travelsky

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47. Related Party Transactions (continued)

(b) Related party transactions

Nature of transactions	Related party	Pricing policy and decision process	Income or receipts/ (expense or payments)	
			2015 RMB million	2014 RMB million
With CEA Holding or companies directly or indirectly held by CEA Holding:				
Interest income on deposits	Eastern Air Finance Company	(iv)	20	21
Interest income on loans	Jetstar Hong Kong	(iv)	1	10
Interest expense on loans	Eastern Air Finance Company	(iv)	(11)	(37)
Commission expense on air tickets sold on behalf of the Group	Shanghai Dongmei	(ii)	–	(5)
Handling charges for purchase of aircraft, flight, equipment, flight equipment spare parts, other property, plant and flight equipment and repairs for aircraft and engines*	Eastern Import & Export	(ii)	(119)	(120)
Repairs and maintenance expense for aircraft and engines	Wheels & Brakes	(ii)	(137)	(81)
	Technologies Aerospace	(ii)	(193)	(188)
	Shanghai P&W	(ii)	(1,717)	(1,804)
Supply of system services	China Kaiya	(ii)	(45)	(36)
Supply of food and beverages*	Eastern Air Catering	(i)	(1,058)	(851)
	CEA development	(i)	(38)	–
	Eastern Import & Export	(i)	(32)	–
Advertising expense*	Eastern Advertising	(ii)	(24)	(5)
Media royalty fee	Eastern Advertising	(iii)	26	16
Automobile maintenance service, aircraft maintenance, providing transportation automobile and other products*	CEA Development	(ii)	(86)	(142)

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47. Related Party Transactions (continued)

(b) Related party transactions (continued)

Nature of transactions	Related party	Pricing policy and decision process	Income or receipts/ (expense or payments)	
			2015 RMB million	2014 RMB million
With CEA Holding or companies directly or indirectly held by CEA Holding:				
Equipment maintenance fee	Shanghai Hute	(ii)	–	(66)
	Collins Aviation	(ii)	(26)	(46)
	CEA Development	(ii)	(24)	–
Property management and green maintenance expenses*	Eastern Investment	(ii)	–	(4)
	CEA Development	(ii)	(52)	–
Supply of hotel accommodation service*	Eastern Tourism	(ii)	–	(1)
	CEA Development	(ii)	(39)	–
Land and building rental*	CEA Holding	(ii)	(52)	(50)
Acquisition of a subsidiary	Eastern Tourism	(v)	–	(32)
Disposal of a subsidiary	Eastern Investment	(v)	49	–
Expense on finance lease*	CES Lease Company	(ii)	(216)	–
Civil aviation information network services**	Travelsky	(ii)	(454)	–

(i) The Group's pricing policies on products purchased from related parties are mutually agreed between contract parties.

(ii) The Group's pricing policies on services provided by related parties are mutually agreed between contract parties.

(iii) The Group's pricing policies on services provided to related parties are mutually agreed between contract parties.

(iv) The Group's pricing policies on related party interest rates are mutually agreed based on benchmark interest rates between contract parties.

(v) The Group's pricing policies on transfer of equity or disposal of investments are mutually agreed based on the valuation prices.

* These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

** This related party transaction constitutes continuing connected transaction pursuant to the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

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47. Related Party Transactions (continued)

(c) Balances with related parties

(i) Amounts due from related parties

	2015 RMB million	2014 RMB million
Trade receivables		
Others	–	1
Prepayments and other receivables		
Eastern Import & Export	31	123
China Kaiya	11	14
Collins Aviation	–	16
Technologies Aerospace	5	–
Beijing Dongtou	88	–
Others	4	16
	139	169

All the amounts due from related parties are trade in nature, interest-free and payable within normal credit terms.

(ii) Amounts due to related parties

	2015 RMB million	2014 RMB million
Trade payable and bills payables		
Eastern Import & Export	295	112
Eastern Air Catering	37	38
Technologies Aerospace	5	4
Wheels & Brakes	8	–
CEA development	2	–
Collins Aviation	1	–
CEA Holding	1	–
Travelsky	548	–
Others	–	32
	897	186

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47. Related Party Transactions (continued)

(c) Balances with related parties (continued)

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

	Average interest rate		2015 RMB million	2014 RMB million
	2015 RMB million	2014 RMB million		
Short-term deposits (included in cash and cash equivalents) Eastern Air Finance Company	0.35%	0.35%	729	369
Short-term borrowings (included in borrowings) Eastern Air Finance Company	2.07%	2.26%	–	73
Long-term borrowings (included in borrowings) Eastern Air Finance Company	5.54%	5.73%	–	125
Loans (Note) (included in prepayments and other receivables) Jetstar Hong Kong	1 month libor +3.44%	1 month libor +3.44%	–	369

Note: In July 2014, Eastern Air Overseas signed a loan contract with Jetstar Hong Kong, an associate of the Company. According to the contract, Eastern Air Overseas offered a loan of USD60 million at the market interest rate to Jetstar Hong Kong. The principal of the loan was repaid on 30 April 2015.

(d) Guarantees by the holding company

As at 31 December 2015, bonds of the Group guaranteed by CEA Holding amounted to RMB4.8 billion (2014: RMB4.8 billion) (Note 34(b)).

(e) Key management compensation

The compensation paid or payable to key management for employee services mainly comprised of salaries and other short-term employee benefits and was analysed as below:

	2015 RMB million	2014 RMB million
Directors and supervisors (Note 9(a))	3	3
Senior management	3	3
	6	6

48. Events After the Reporting Period

In January 2016, the Group received the approval from China Securities Regulatory Commission regarding the non-public issuance of not more than 2,329,192,546 A Shares.

On 18 January 2016, the Company issued short-term debentures with a principal of RMB2.5 billion and maturity of 90 days. The debentures bear interest at the rate of 2.5% per annum.

Notes to the Financial Statements

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48. Events After the Reporting Period (continued)

On 20 January 2016, the Company issued short-term debentures with a principal of RMB2.0 billion and maturity of 90 days. The debentures bear interest at the rate of 2.5% per annum.

On 24 March 2016, the Company issued short-term debentures with a principal of RMB3.0 billion and maturity of 270 days. The debentures bear interest at the rate of 2.4% per annum.

The Board of the Group also intends, for mid-2016, a cash dividend distribution of not less than 40% of the net profit of the Company for the year 2015 under domestic accounting principles.

49. Dividends

The Board has not recommended any dividend for the year ended 31 December 2015 (2014: Nil).

50. Comparative Amounts

As further explained in note 2.2 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items in the financial statements have been revised to comply with the new requirements.

51. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2015 RMB million	31 December 2014 RMB million
Non-current assets		
Intangible assets	11,503	11,479
Property, plant and equipment	84,207	69,472
Lease prepayments	1,157	1,260
Advanced payments on acquisition of aircraft	21,207	19,459
Investments in subsidiaries	14,216	13,961
Investments in associates	1,009	596
Investments in joint ventures	323	323
Available-for-sale investments	388	388
Other non-current assets	2,935	1,809
Deferred tax assets	137	–
Derivative financial instruments	45	30
	137,127	118,777
Current assets		
Flight equipment spare parts	38	72
Trade receivables	6,725	2,920
Prepayments and other receivables	12,763	13,194
Derivative financial instruments	–	5
Restricted bank deposits and short-term bank deposits	27	27
Cash and cash equivalents	8,015	865
Assets classified as held for sale	–	2,866
	27,568	19,949

Notes to the Financial Statements

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51. Statement of Financial Position of the Company (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (continued)

	31 December 2015 RMB million	31 December 2014 RMB million
Current liabilities		
Sales in advance of carriage	5,535	4,920
Trade and bills payables	8,876	6,449
Other payables and accruals	25,116	15,746
Current portion of obligations under finance leases	3,628	3,104
Current portion of borrowings	32,836	29,236
Income tax payable	–	2
Current portion of provision for return condition checks for aircraft under operating leases	585	524
Derivative financial instruments	4	–
	76,580	59,981
Net current liabilities	(49,012)	(40,032)
Total assets less current liabilities	88,115	78,745
Non-current liabilities		
Obligations under finance leases	28,037	23,899
Borrowings	20,734	20,020
Provision for return condition checks for aircraft under operating leases	713	1,228
Other long-term liabilities	1,927	1,775
Post-retirement benefit obligations	2,064	2,057
Deferred tax liabilities	16	–
Derivative financial instruments	97	95
	53,588	49,074
Net assets	34,527	29,671
Equity		
Capital and reserves attributable to the equity holders of the Company		
– Share capital	13,140	12,674
– Reserves	21,387	16,997
Total equity	34,527	29,671

Notes to the Financial Statements

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51. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Share Premium RMB million	Capital reserve RMB million	Hedging reserve RMB million	Statutory reserve RMB million	Other reserve RMB million	Retained profits/ (accumulated losses) RMB million	Total RMB million
At 1 January 2014	20,464	(720)	(50)	–	(2,254)	(2,558)	14,882
Unrealised losses on cash flow hedges	–	–	(11)	–	–	–	(11)
Fair value movements of available-for-sale investments	–	–	–	–	15	–	15
Actuarial losses on post-retirement benefit obligations	–	–	–	–	(62)	–	(62)
Profit for the year	–	–	–	–	–	2,173	2,173
At 31 December 2014	20,464	(720)	(61)	–	(2,301)	(385)	16,997
Unrealised gains on cash flow hedges	–	–	10	–	–	–	10
Fair value movements of available-for-sale investments	–	–	–	–	73	–	73
Actuarial gains on post-retirement benefit obligations	–	–	–	–	185	–	185
Issue of shares	2,389	–	–	–	–	–	2,389
Transfer from retained profits	–	–	–	184	–	(184)	–
Profit for the year	–	–	–	–	–	1,733	1,733
At 31 December 2015	22,853	(720)	(51)	184	(2,043)	1,164	21,387

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