# WORLD-CLASS Hospitality WITH Eastern Charm
# 世界品位 東方魅力

ANNUAL REPORT 2013 年報

中國東方航空
CHINA EASTERN

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(在中華人民共和國註冊成立的股份有限公司)

(Stock Code 股份代號: 00670)


# Contents

# Definitions

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

| | |
|---|---|
| AFTK | the number of tonnes of capacity available for the carriage and cargo and mail multiplied by the distance flown |
| ATK | the number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown |
| Articles of Association | the articles of association of the Company |
| ASK | the number of seats made available for sale multiplied by the distance flown |
| Board | the board of directors of the Company |
| CAAC | Civil Aviation Administration of China |
| CEA Development | 上海東方航空實業有限公司 (CEA Development Co.), which is a shareholding company under CEA Holding, and is interested as to 95% and 5% by CEA Holding and the Company respectively |
| CEA Holding | China Eastern Air Holding Company, the controlling shareholder of the Company |
| CEA Northwest | 中國東方航空西北公司 (China Eastern Air Northwest Company), a company wholly-owned by CEA Holding |
| CES Finance | 東航金戎控股有限責任公司 (CES Finance Holding Co. Ltd), a wholly-owned subsidiary of CEA Holding and a substantial shareholder of the Company |
| CES Global | 東航國際控股(香港)有限公司 (CES Global Holdings (Hong Kong) Limited), an indirect wholly-owned subsidiary of CEA Holding, a direct wholly-owned subsidiary of CES Finance and a substantial shareholder of the Company |
| CES Media | 東方航空傳媒股份有限公司 (China Eastern Airlines Media Co., Ltd), which is a shareholding company under CEA Holding, and is interested as to 55% and 45% by CEA Holding and the Company respectively |
| China Eastern Airlines, CEA, or the Company | 中國東方航空股份有限公司 (China Eastern Airlines Corporation Limited) |
| China Cargo Airlines | 中國貨運航空有限公司 (China Cargo Airlines Co., Ltd.), a shareholding company under Eastern Logistics, which is a wholly-owned subsidiary of the Company |
| China United Airlines | 中國聯合航空有限公司 (China United Airlines Co., Ltd.), a wholly-owned subsidiary of the Company |
| Code | the Corporate Governance Code set out in Appendix 14 to the Listing Rules |
| Code sharing | Code sharing is 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 sharing flights operated by other airlines as its own products |
| CSRC | the China Securities Regulatory Commission |
| Direct tagging of luggage | to tag luggage directly from departing airport to the destination |
| Directors | the directors of the Company |
| Eastern Air Catering Company | 東方航空食品投資有限公司 (Eastern Air Catering Investment Co. Ltd.), which is a shareholding company under CEA Holding, and is interested as to 55% and 45% by CEA Holding and the Company respectively |
| Eastern Air Finance Company | 東航集團財務有限責任公司 (Eastern Air Group Finance Co., Ltd.), which is a shareholding company under CEA Holding, and is interested as to 53.75%, 21.25% and 25% by CEA Holding, CES Finance and the Company respectively |
| Eastern Air Overseas | Eastern Air Overseas (Hong Kong) Co., Ltd., a wholly-owned subsidiary of the Company |
| Eastern Airlines Investment | 上海東航投資有限公司 (Shanghai Eastern Airlines Investment Co., Ltd.), a wholly-owned subsidiary of CEA Holding |
| Eastern Aviation Import & Export Company | 東方航空進出口有限公司 (Eastern Aviation Import & Export Company), which is a shareholding company under CEA Holding, and is interested as to 55% and 45% by CEA Holding and the Company respectively |
| Eastern Logistics | Eastern Airlines Logistics Co., Ltd., a wholly-owned subsidiary of the Company |
| Eastern Tourism | 東航旅業投資(集團)有限公司 (Eastern Air Tourism Investment Group Co., Ltd), a wholly-owned subsidiary of CEA Holding |
| Eastern Travel | 上海東航國際旅行社有限公司 (Shanghai Eastern Air International Travel Service Co., Ltd), a direct wholly-owned subsidiary of Shanghai Tours and an indirect subsidiary of the Company |
| Freight load factor | the ratio of freight volume to AFTK |

| | |
|---|---|
| Freight volume | the product of the weight of cargo and mail for each flight segment and the distance of the flight segment |
| Frequent flyer program | the promotional method which mainly offers rewards to passengers who frequently take the flights of the airlines by accumulating flight kilometres |
| Group | the Company and its subsidiaries |
| HKSCC | 香港中央結算(代理人)有限公司 (Hong Kong Securities Clearing Company Ltd.), which operates the Central and Clearing and Settlement System of Hong Kong and is a recognized clearing institution. Hong Kong Securities Clearing Company Ltd. is a wholly-owned subsidiary of the Hong Kong Stock Exchange. Securities of investors are deposited in concentration in Hong Kong Securities Clearing Company Ltd. |
| Hong Kong Stock Exchange | The Stock Exchange of Hong Kong Limited |
| IFRS | International Financial Reporting Standards |
| Jetstar Hong Kong | Jetstar Hong Kong Limited, an associate of the Company |
| Jetstar International | Jetstar International Group Holdings Co., Limited, a wholly-owned subsidiary of Qantas |
| Listing Rules | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| Model Code | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| NYSE | the New York Stock Exchange |
| Passenger load factor | the ratio of passenger volume to ASK |
| Passenger volume | the product of passenger traffic volume (persons) for each flight segment and the distance of the flight segment |
| PRC | the People's Republic of China |
| Qantas | Qantas Airways Limited |
| RFTK | cargo and mail load in tonnes multiplied by the distance flown |
| RPK | the number of passengers carried multiplied by the distance flown |
| RTK | load (passenger and cargo) in tonnes multiplied by the distance flown |
| RTK revenue | the ratio of the sum of passenger traffic revenue and freight traffic revenue to total traffic volume |
| SFO | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| Shanghai Airlines | 上海航空有限公司 (Shanghai Airlines Co., Ltd.), a wholly-owned subsidiary of the Company |
| Shanghai Dongmei | 上海東美航空旅遊有限公司 (Shanghai Dongmei Aviation Tourism Co., Ltd.), which is a shareholding company under CEA Holding, and is interested as to 72.84% and 27.16% by CEA Holding and the Company respectively |
| Shanghai Tours | 上海航空國際旅遊(集團)有限公司 (Shanghai Airlines Tours International (Group) Co., Ltd.), a wholly-owned subsidiary of the Company |
| Shareholder(s) | the shareholder(s) of the Company |
| Shun Tak Holdings | Shun Tak Holdings Limited |
| Shun Tak Investor | Go Harvest Investments Limited, a wholly-owned subsidiary of Shun Tak Holdings |
| SkyTeam Alliance | SkyTeam Alliance, one of the three major airlines alliances in the world. Please refer to the website http://www.skyteam.com/for more details about SkyTeam Alliance |
| Supervisors | the supervisors of the Company |
| The end of the Reporting Period | 31 December 2013 |
| The Reporting Period | from 1 January 2013 to 31 December 2013 |
| Total traffic volume | the product of the weight of passengers, cargo and mails and the distance of the flight segment (every adult passenger accounts for 90 kilogrammes) |
| USA | the United States of America |
| Weight of freight carried | the actual weight of freight carried |

# Financial Highlights

(Prepared in accordance with International Financial Reporting Standards)



## Expressed in RMB millions

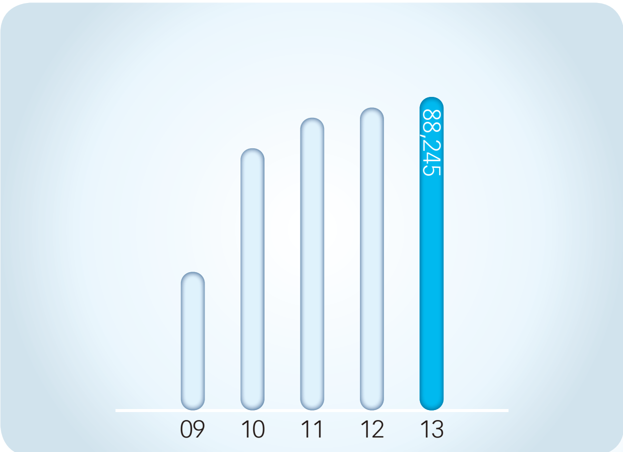
| | 2009 | 2010 | 2011 | 2012 | **2013** |
|---|---|---|---|---|---|
| Year ended 31 December | | | | | |
| Revenues | 38,989 | 73,804 | 82,403 | 85,253 | **88,245** |
| Other operating income | 1,288 | 658 | 1,062 | 1,833 | **2,725** |
| Operating expenses | (38,340) | (68,664) | (79,201) | (82,734) | **(89,394)** |
| Operating profit/(loss) | 1,937 | 5,798 | 4,264 | 4,352 | **1,576** |
| Finance income/(cost), net | (1,549) | (347) | 561 | (1,349) | **576** |
| Profit/(loss) before income tax | 365 | 5,519 | 4,932 | 3,137 | **2,217** |
| Profit/(loss) for the year attributable to the equity shareholders of the Company | 280 | 5,056 | 4,661 | 3,072 | **2,373** |
| Earning/(loss) per share attributable to the equity shareholders of the Company (RMB)[1] | 0.04 | 0.45 | 0.41 | 0.27 | **0.20** |

| | | | | | |
|---|---|---|---|---|---|
| At 31 December | | | | | |
| Cash and cash equivalents | 1,735 | 3,078 | 3,861 | 2,512 | **1,995** |
| Net current liabilities | (28,648) | (27,184) | (29,679) | (35,948) | **(40,472)** |
| Non-current assets | 65,035 | 91,293 | 101,092 | 111,214 | **127,458** |
| Long term borrowings, including current portion | (16,928) | (27,373) | (30,321) | (32,856) | **(36,175)** |
| Obligations under finance leases, including current portion | (19,370) | (19,208) | (20,261) | (21,858) | **(23,135)** |
| Total share capital and reserves attributable to the equity shareholders of the Company | (1,287) | 12,094 | 17,132 | 20,207 | **26,902** |

(1) The calculation of earnings per share for 2009 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of shares of 6,436,828,000; the calculation of earnings per share for 2010 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 11,149,426,000 ordinary shares in issue. The calculation of earnings per share for 2011 and 2012 is based on the consolidated profit attributable to the equity shareholders of the Company divided by 11,276,538,860 ordinary shares in issue. The calculation of earnings per share for 2013 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 12,091,881,000 ordinary shares in issue.

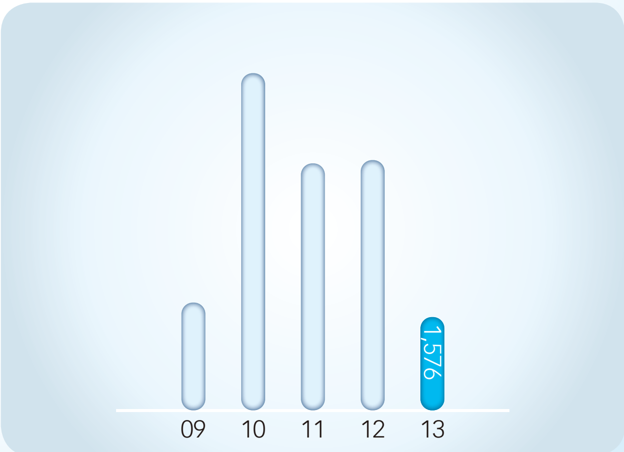
## Revenues

(RMB millions)




## Operating Profit/(Loss)

(RMB millions)



# Summary of Accounting and Business Data

(Prepared in accordance with PRC Accounting Standards)

## Profit for the year ended 31 December 2013

| | RMB million |
|---|---|
| Net profit | 2,096 |
| Income from main operations | 6,565 |
| Income from other operations | 1,106 |
| Income from investments | 68 |
| Net income outside business | 3,262 |

## Major Accounting Data & Financial Indicators

(Expressed in RMB Million)

| | 2012 | **2013** |
|---|---|---|
| 1. Operation revenue | 86,409.26 | **88,009.24** |
| 2. Net profit attributable to the equity shareholders of the Company | 3,173.20 | **2,376.04** |
| 3. Total assets | 121,670.63 | **137,776.51** |
| 4. Shareholders' equity | 19,444.23 | **26,290.72** |
| 5. Earnings per share (RMB) | 0.28 | **0.20** |
| 6. Net assets per share (RMB) | 1.72 | **2.07** |

Notes:

1. Calculation of major financial indicators:
   Earnings per share = Net profit attributable to the equity shareholders of the Company ÷ weighted average number of ordinary shares outstanding
   Net assets per share = shareholders' equity at the end of the year ÷ total number of ordinary shares at the end of the year

# Summary of Selected Operating Data



| | 2013 | 2012 | Change |
|---|---|---|---|
| **Capacity** | | | |
| **ATK (available tonne – kilometres) (millions)** | 21,714.78 | 19,721.41 | 10.11% |
| – Domestic routes | 11,572.95 | 10,531.56 | 9.89% |
| – International routes | 9,377.23 | 8,493.45 | 10.41% |
| – Regional routes | 764.60 | 696.40 | 9.79% |
| **ASK (available seat – kilometres) (millions)** | 152,075.22 | 136,723.95 | 11.23% |
| – Domestic routes | 104,459.31 | 95,167.75 | 9.76% |
| – International routes | 42,181.19 | 36,472.11 | 15.65% |
| – Regional routes | 5,434.72 | 5,084.09 | 6.90% |
| **AFTK (available freight tonne – kilometres) (millions)** | 8,028.01 | 7,416.25 | 8.25% |
| – Domestic routes | 2,171.61 | 1,966.46 | 10.43% |
| – International routes | 5,580.93 | 5,210.96 | 7.10% |
| – Regional routes | 275.47 | 238.84 | 15.34% |
| **Hours flown (thousands)** | 1,540.39 | 1,404.52 | 9.67% |
| **Traffic** | | | |
| **RTK (revenue tonne – kilometres) (millions)** | 15,551.78 | 14,406.48 | 7.95% |
| – Domestic routes | 8,321.46 | 7,705.32 | 8.00% |
| – International routes | 6,749.46 | 6,243.40 | 8.11% |
| – Regional routes | 480.85 | 457.76 | 5.04% |
| **RPK (revenue passenger – kilometres) (millions)** | 120,461.13 | 109,112.68 | 10.40% |
| – Domestic routes | 82,811.97 | 76,155.58 | 8.74% |
| – International routes | 33,600.01 | 29,105.09 | 15.44% |
| – Regional routes | 4,049.14 | 3,852.01 | 5.12% |
| **RFTK (revenue freight tonne – kilometres) (millions)** | 4,857.18 | 4,700.90 | 3.32% |
| – Domestic routes | 959.29 | 922.68 | 3.97% |
| – International routes | 3,774.61 | 3,661.41 | 3.09% |
| – Regional routes | 123.28 | 116.82 | 5.53% |
| **Number of passengers carried (thousands)** | 79,093.68 | 73,077.06 | 8.23% |
| – Domestic routes | 67,142.33 | 62,360.47 | 7.67% |
| – International routes | 8,991.71 | 7,903.00 | 13.78% |
| – Regional routes | 2,959.64 | 2,813.59 | 5.19% |
| **Weight of freight carried (kg) (millions)** | 1,410.29 | 1,416.48 | -0.44% |
| – Domestic routes | 697.53 | 679.85 | 2.60% |
| – International routes | 613.56 | 641.94 | -4.42% |
| – Regional routes | 99.20 | 94.69 | 4.76% |

| | 2013 | 2012 | Change |
|---|---|---|---|
| **Load factors** | | | |
| **Overall load factor (%)** | 71.62 | 73.05 | -1.43 pts |
| – Domestic routes | 71.90 | 73.16 | -1.26 pts |
| – International routes | 71.98 | 73.51 | -1.53 pts |
| – Regional routes | 62.89 | 65.73 | -2.84 pts |
| **Passenger load factor (%)** | 79.21 | 79.81 | -0.60 pts |
| – Domestic routes | 79.28 | 80.02 | -0.74 pts |
| – International routes | 79.66 | 79.80 | -0.14 pts |
| – Regional routes | 74.51 | 75.77 | -1.26 pts |
| **Freight load factor (%)** | 60.50 | 63.39 | -2.89 pts |
| – Domestic routes | 44.17 | 46.92 | -2.75 pts |
| – International routes | 67.63 | 70.26 | -2.63 pts |
| – Regional routes | 44.75 | 48.91 | -4.16 pts |
| **Yields and costs** | | | |
| **Revenue tonne – kilometres yield *(RMB)*** | 5.18 | 5.51 | -6.10% |
| – Domestic routes | 6.23 | 6.68 | -6.81% |
| – International routes | 3.68 | 3.89 | -5.40% |
| – Regional routes | 8.08 | 8.04 | 0.45% |
| **Passenger – kilometres yield *(RMB)*** | 0.61 | 0.65 | -7.51% |
| – Domestic routes | 0.61 | 0.66 | -7.28% |
| – International routes | 0.56 | 0.62 | -9.12% |
| – Regional routes | 0.85 | 0.84 | 1.21% |
| **Freight tonne – kilometres yield *(RMB)*** | 1.57 | 1.71 | -8.31% |
| – Domestic routes | 1.30 | 1.44 | -9.76% |
| – International routes | 1.56 | 1.70 | -8.24% |
| – Regional routes | 3.71 | 3.94 | -5.84% |

## Fleet Structure as at 31 December 2013

*(Units)*

| No. | Model | Self-owned and under finance lease | Under operating lease | Sub-total | Average fleet age (Years) |
|---|---|---|---|---|---|
| **Passenger aircraft Total** | | **302** | **149** | **451** | **6.72** |
| *Wide-body aircraft* | | 44 | 11 | 55 | 7.8 |
| 1 | A340-600 | 5 | – | 5 | 9.99 |
| 2 | A330-300 | 8 | 7 | 15 | 6.73 |
| 3 | A330-200 | 18 | 3 | 21 | 2.53 |
| 4 | A300-600R | 7 | – | 7 | 19.03 |
| 5 | B767 | 6 | 1 | 7 | 13.15 |
| *Narrow-body aircraft* | | 258 | 138 | 396 | 6.57 |
| 6 | A321 | 33 | – | 33 | 4.11 |
| 7 | A320 | 101 | 44 | 145 | 6.41 |
| 8 | A319 | 15 | 8 | 23 | 6.41 |
| 9 | B757-200 | 5 | 3 | 8 | 12.26 |
| 10 | B737-800 | 28 | 66 | 94 | 4.33 |
| 11 | B737-700 | 42 | 17 | 59 | 7.38 |
| 12 | B737-300 | 16 | – | 16 | 17.55 |
| 13 | CRJ-200 | 8 | – | 8 | 12.16 |
| 14 | EMB-145LR | 10 | – | 10 | 7.26 |
| **Total number of freighters** | | **3** | **11** | **14** | **11.16** |
| 15 | A300-600R | 1 | – | 1 | 23.49 |
| 16 | B747-400ER | 2 | 3 | 5 | 12.91 |
| 17 | B757-200F | – | 2 | 2 | 24.4 |
| 18 | B777F | – | 6 | 6 | 3.24 |
| **Total number of passenger aircraft and freighters** | | **305** | **160** | **465** | **6.86** |
| **Business aircraft in custody** | | | | **13** | |
| **Total number of aircraft** | | | | **478** | |

## Fleet plan sheet

The fleet of the Group in the future will mainly comprise 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 expected fleet plan from 2014 to 2018 are as follows:

**Introduction and Retirement Plan of Aircraft for 2014 to 2018**

*(Units)*

| Model | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Introduction | Retirement | Introduction | Retirement | Introduction | Retirement | Introduction | Retirement | Introduction | Retirement |
| **Passenger aircraft** | | | | | | | | | | |
| A320 Series | 34 | 16 | 26 | 9 | 25 | 6 | 15 | – | 15 | – |
| A330 Series | 8 | – | 7 | – | – | – | – | – | – | 10 |
| A340-600 | – | 1 | – | 4 | – | – | – | – | – | – |
| A300-600 | – | 7 | – | – | – | – | – | – | – | – |
| B777 Series | 4 | – | 5 | – | 5 | – | 3 | – | 3 | – |
| B737NG | 27 | 7 | 37 | 10 | 15 | 10 | – | 17 | – | 5 |
| B757 | – | 2 | – | 1 | – | – | – | – | – | – |
| B767 | – | 1 | – | – | – | – | – | – | – | – |
| CRJ | – | 8 | – | – | – | – | – | – | – | – |
| EMB-145LR | – | – | – | 5 | – | 5 | – | – | – | – |
| **Total number of passenger aircraft** | **73** | **42** | **75** | **29** | **45** | **21** | **18** | **17** | **18** | **15** |
| **Freighters** | | | | | | | | | | |
| A300-600F | – | 1 | – | – | – | – | – | – | – | – |
| B747F | – | 1 | – | 1 | – | – | – | 1 | – | – |
| **Total number of freighters** | – | **2** | – | **1** | – | – | – | **1** | – | – |
| **Total** | **73** | **44** | **75** | **30** | **45** | **21** | **18** | **18** | **18** | **15** |

Note: The abovementioned quantity and timing for the introduction and retirement of aircraft shall be subject to adjustment based on market conditions.

# Milestones

## January 2013

### 8 January

On 8 January, the Company was awarded "2012 Brand Golden Fair Award – Annual Corporate Social Responsibilities Brand".

## March 2013

### 20 March

On 20 March, the Company was recognised for the first time as one of the Top 10 Companies with the Best Corporate Social Responsibility (企業社會責任排行榜前10強).

## April 2013

### 18 April

On 18 April, the Company's trademark "Eastern Miles" and the "Red Base White Crane Trademark" of Shanghai Airlines were recognised as "Shanghai Renowned Trademarks" by Shanghai Industry and Commerce Administration.

### 26 April

On 26 April, the Company's Wuhan-San Francisco international flight was officially commenced. This represents the construction of a convenient aerial passageway between Optic Valley in China and Silicon Valley in the USA.

## May 2013

### 1 May

The uniforms of the Company's pilots, flight attendants and ground crew were changed since 1 May to build up a brand new image.

### 6 May

On 6 May, the Company was awarded one of the "Shanghai Top 10 Brands" of the year 2012.

### 26 May

On 26 May, the Company's Corporate Social Responsibility Report 2012 was given a professional recognition of "Four-star Outstanding Report" by Economics Division of Chinese Academy of Social Sciences.



## June 2013

### 5 June

On 5 June, China Cargo Airlines Co. Ltd., a wholly owned subsidiary of the Company, officially announced its participation in the SkyTeam Cargo in Munich, Germany.

## August 2013

### 20 August

On 20 August, the inaugural flight of Chongqing to Los Angeles flight launched by the Company was successfully completed.

## September 2013

### 2 September

On 2 September, the e-commerce website www.eaemall.com under Eastern Airlines Logistics Co., Ltd., a wholly owned subsidiary of the Company, was duly revised and launched.

### 26 September

On 26 September, the Company was awarded "Best Mid-cap Company" by Hong Kong Asiamoney Magazine.

## October 2013

### 18 October

On 18 October, the inaugural flight of Shanghai-Manila flight launched by the Company was successfully completed.

## November 2013

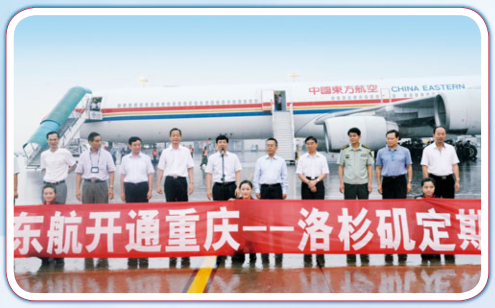
### 20 November

On 20 November, Eastern Airlines Logistics Co., Ltd, a wholly owned subsidiary of the Company, was honored as one of the "Top 10 Competitive Chinese Logistics Enterprises 2013" (2013中國十大競爭力物流企業).

### 28 November

On 28 November, the Company was granted "Best Listed Company Award" and "Listed Company with the Best Investors Relation Management" at the 2013 China Securities Golden Bauhinia Award ceremony.





# Chairman's Statement



**Liu Shaoyong**
*Chairman*

**Dear shareholders,**

**I am pleased to present the report on the operating results of the Group for the year ended 31 December 2013. On behalf of the entire staff of the Group, I would like to extend my sincere thanks to the Shareholders.**

## Business Overview

In 2013, the world's developed countries' economies recovered slowly while the growth of emerging economies shrank rapidly and fuel price remained high. The economic growth of China had sustained but in a declining rate. The demand of domestic high-end business customers dropped. The rapid growth of domestic civil aviation flight capacity has intensified market competition. The Group proactively responded to the tough economic environment. On a pre-condition that safety could be stable and under control, we continuously optimized our fleet structure, timely adjusted our routes and flight capacity allocation, strengthened our marketing, improved service quality and developed pushed forward information technology construction and business transformation. In 2013, the Group recorded operating revenue of RMB88,245 million, representing an increase of 3.51% from the same period last year. Net profit attributable to the Company was RMB2,373 million, representing a decrease of 22.76% from the same period last year.

In 2013, the Group adjusted its flight capacity allocation in a timely manner and maintained refine pricing and cabin space management according to changes in market demand, so as to sustain a steady growth in passenger transportation business. In respect of our domestic business, with the enhanced constructions of Shanghai core hub, as well as Kunming and Xi'an regional hubs, we continued to optimize route network and flight schedule. In respect of our regional (Hong Kong, Macau and Taiwan) business, we maintained our competitiveness and influence of routes in Hong Kong, Macau and Taiwan region through increasing the frequency of flights and optimization of aircraft models. In respect of our international business, we flexibly adjusted the flight capacity allocated to routes to Japan according to changes in Chinese and Japanese markets. At the same time, we seized the opportunity of the rapid growth in the number of outbound passengers and increase the flight capacity routes to North American, European, Korean and Southeast Asian etc.. In 2013, the Group has put in available seat – kilometres (ASK) of 152,075.22 million passenger-kilometres, representing an increase of 11.23% from the same period last year. Number of passengers carried in 2013 was 79.0937 million, representing an increase of 8.23% from the same period last year. Passenger load factor in 2013 was 79.21%, representing a decrease of 0.60 percentage point from the same period last year. Passenger revenue in 2013 amounted to RMB72,928 million, representing an increase of 2.11% from the same period last year.

In 2013, the Group accounted for 48.7%, 37.7%, 44.4% and 31.3% of the total market share at Shanghai Hongqiao International Airport, Shanghai Pudong International Airport, Kunming Airport and Xi'an Airport, respectively, in terms of total flight departures and arrivals, and accounted for 47.4%, 35.4%, 41.2% and 31.5% of the total market share at Shanghai Hongqiao International Airport, Shanghai Pudong International Airport, Kunming Airport and Xi'an Airport, respectively, in terms of passenger throughput. The Group maintained relatively strong influence in its core markets such as Shanghai, Kunming and Xi'an.

Global aviation freight transportation industry was still at the trough stage in 2013. Some of the domestic express delivery corporations started to enter into the aviation freight transportation industry. Therefore, market competition was intensified and the Group was facing more difficulties in operating its freight transportation business. The Group adapted to the changes in market demand by reducing its size of freight fleet and optimizing its route network, proactively engaging in its business transformation and developing value-added services such as logistics integration and express delivery, etc.. In 2013, available freight tonne – kilometres (AFTK) of the Group was 8,028.01 million tonne – kilometres, representing an increase of 8.25% from the same period last year. Weight of freight carried in 2013 was 1,410.29 million kilogrammes, representing a decrease of 0.44% from the same period last year. Freight load factor in 2013 was 60.50%, representing a decrease of 2.89 percentage points from the same period last year. Freight traffic revenue in 2013 was RMB7,603 million, representing a decrease of 5.26% from the same period last year.

## Review of Operations

### Safe operation

The Group puts great emphasis on safety management and strictly implements safety responsibility. We have set a safety management warning line to strengthen the safety awareness of our operation staff. The Group also continues to strengthen its construction of the SMS (Safety Management System) and enhances its risk management ability. A research institute of flight safety technology application was established to improve the analysis work of safety information and scientific management. In 2013, the Group had 1.5404 million of safe hours flown which increased by 9.67% from the same period last year.

### Fleet structure

In 2013, the Group introduced 58 new aircraft, including A330 Series for long-and-medium haul, A320 Series for medium-and-short haul and B737NG. It surrendered 9 aircraft, 4 of which were passenger aircraft of A320, B737–700 and B757-200 models; 5 of which were freighters of MD-11 and A300-600R models.

As at 31 December 2013, the Group operated a fleet of 478 aircraft, which included 451 passenger aircraft, 14 freighters and 13 business aircraft held in custody.

### Hub development

The Group strived to further expand the influence of its hub network by sustainably strengthening the development of its core hub in Shanghai and regional hubs in Kunming and Xi'an and it maintained relatively strong influence in core markets such as Shanghai, Kunming and Xi'an as a result. By increasing the frequency of flights for express routes and quasi-express routes such as Shanghai to Kunming, Xiamen and Dalian, and international routes such as Shanghai to Paris, Vancouver and Hawaii, etc., as well as introducing new international flight destinations such as San Francisco and Manila, the influence of the Company in Shanghai hub market was further enhanced. The Group's flight system at Shanghai Pudong hub was further optimized and the transit connection opportunities of the Group's flights at Shanghai Pudong Airport was increased accordingly. Meanwhile, the transit assurance ability of the Group in Shanghai Pudong Airport increased sustainably. The MCT (the minimum connecting time) of the international-domestic transit was reduced to 90 minutes. Direct tagging of luggage at the same airport in Shanghai for transit passengers and cross-terminal interline transit between the two terminals at Pudong Airport are available. In addition, 24-hour immigration procedures-free direct transits between international flights is attained.

Leveraging on opportunities arising from the release of time slots at the new Kunming airport, the Group allocated more flight capacities by increasing the frequency of flights for international routes from Kunming to Vientiane, Dhaka and Chiang Mai, promoting flying to "South Asia, Southeast Asia and West Asia", providing full coverage over routes from Kunming to other provincial capitals in the PRC, as well as increasing the frequency and optimizing the morning and night flight system of the Group's flights going to Kunming.

The Group adjusted the flight plan of Xi'an hub according to its seasonal features by focusing on the development of plateau routes, introducing new route from Xi'an to Lijiang and increasing the frequency of flights for routes from Xi'an to Lhasa and Jiuzhaigou.

## Passenger transportation marketing

By strengthening its centralized control on pricing, the Group enhanced its marketing management ability. We tracked market sales situation and analyzed marketing data in time to adjust transportation price. We also expanded our marketing channels continuously through development and enhancement of different marketing products. For example, we promoted sale products such as cabin upgrade on ground, packages, etc., 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 the meantime, the Group emphasized on the development and maintenance of customer resources to explore customer value intensively. As at the end of 2013, the Group's total number of group customers has reached 4,989 and the proportion of income from group customers increased by 5.4 percentage points from the same period last year. The number of our frequent flyer members reached 20.83 million and their number of second flights increased by 3.3 percentage points from the same period last year. Direct sales income increased by 2.8 percentage points as we increasingly promoted direct sales.

## Alliance and cooperation

By proactively utilising the SkyTeam Alliance platform and route network of SkyTeam member airlines, the Group was able to expand its route network to 1,024 destinations in 178 countries around the world. The Group has also commenced code-sharing operations with 11 SkyTeam member airlines, covering 242 routes. In addition, the Group sustainably commenced intensive cooperation with SkyTeam members in projects of the alliance such as Sky Priority, Sky Hub and Sky Port. It also commenced extensive and intensive cooperation with crucial SkyTeam members such as Air France – KLM Group, Delta Airlines, China Southern Airlines, Xiamen Airlines and China Airlines from Taiwan to continuously promote brand image of the Company and the alliance. In the meantime, the Group also started its code-sharing cooperation with 7 non-SkyTeam member airlines, covering more than 150 routes, including Japan Airlines Corporation and Qantas.

China Cargo Airlines officially joined the SkyTeam Freight Alliance on 5 June 2013 and is proactively participating in the cooperation of the alliance.

## Freight transportation and logistics

In response to the deteriorating aviation freight transportation market condition, the Group adopted measures such as surrendering and suspending freights, as well as reducing freight fleet scale significantly. We also adjusted our route network in order to stabilize our share in core markets. We fully pushed forward our transformation by developing value-added businesses such as logistics and freight expressway e-commerce. In respect of logistics business, the Group established six major logistics project teams for areas such as large-scale corporate projects, medical biotechnology and aviation equipment based on product positioning. We visited major customers to proactively explore demand for logistics. The development of brand customers and direct selling of major client cooperation projects provided logistics solutions to large and medium enterprises. In respect of freight expressway e-commerce, the commencement of eaemall.com official website can utilize the advantages in network and centralized purchasing of Eastern Airlines. Combining with its freight expressway delivery network, Eastern Airlines is able to provide fresh and direct supply of "from the origins to dining table". 上海東航快遞有限公司 (Shanghai Eastern Airlines Express Delivery Company Limited) officially commenced its operation in Shanghai Free Trade Zone and developed its businesses such as cross-border e-commerce.

## Transformation and development

The Group made strenuous effort in pushing forward its transformation from an air passenger and freight carrier to an integrated aviation services and logistics services provider. For the passenger transportation, the Company focused on enhancing customer value. Based on new technologies such as big data and mobile interconnection, the Company intensively developed e-commerce, explored accurate marketing and proactively conducted the online floating market project. For cargo logistics, the Company focused on combining the air and ground logistics services as well as a full flow e-commerce model, with eaemall.com as the platform.

Conforming to the global trend of rapid development in low-cost airlines, the Group is proactively researching and exploring the mode of operation of low-cost airlines. Jetstar Hong Kong, the proposed low-cost airline company jointly established by the Company, Shun Tak Holdings from Hong Kong and Qantas, is currently in the process of applying for an aviation services license.

## Service quality

Adhering to the philosophy of "Customer-Oriented and Dedicated Service", the Group sustainably optimized its service processes and enhanced its service quality. The Group accelerated the promotion of self-services. The self-service rate of domestic routes was approximately 30% and express self-service check-in rate reached 40.45% which is leading in self-service check-in rate in respect of domestic civil aviation. The Group completed the change of uniform for both flight and ground frontline staff to create a brand new service image. Through implementation of brand service projects such as "LingYan Crew Ten, Hundred and Thousand (凌燕十百千)", we established a service model and comprehensively promoted service standard. Customer experience has also been enhanced by constructing self-operated VIP rooms of identical standard at major airports, improving styles and quality of aircraft offerings and providing portable entertainment devices with electronic meal ordering service in two cabins.

## Information technology

The Group was dedicated in establishing an "Informationized Eastern Airlines". It took a proactive approach towards information technology development to utilize the supportive and leading purposes of information technology. The new version of the Group's official website was launched in 2013. The Company established a mobile marketing and service platform through channels such as M website, mobile E, WeChat, Yixin and SMS with a view to provide passengers with 24x7 travel information service. The commencement of unusual flight information management platform has made effective remedial service available in the event of unusual flight. The establishment of logistics e-commerce platform has driven the transformation of cargo business. The Group provided its staff with mobile terminal application software which achieved office mobilization and establishment of working platforms such as operation website, flight website and joint office. The efficiency of the Company's operation has been effectively improved accordingly.

### Cost control

The Group has been proactively promoting the principle of "reducing cost while enhancing efficiency" and strictly controlled the expenses of all costs and fees. The Group has also managed its budget well by implementing analogous accounting. Adjustment of personnel structure and strict control on recruitment of staff improved salary cost management. Optimization of fleet and routes reduced aviation fuel consumption and expenditures on aircraft fuel. Stricter engine maintenance management reduced aircraft maintenance costs. The Group also diversified its financing channels, optimized the liability structure and reduced financial costs. In 2013, the Company completed the non-public issue of Shares to CEA Holding and its subsidiaries and raised gross proceeds of approximately RMB3,582 million; it also issued RMB4.8 billion of PRC corporate bonds, RMB2.2 billion of offshore RMB denominated bonds and RMB4 billion of PRC super short-term commercial paper at relatively low costs.

## Outlook for 2014

The Group would like to bring to the attention of readers of this report that this 2013 annual report contains certain forward-looking statements, including descriptions of the Group's future operating plans for 2014 and beyond, and a general outlook of international and domestic economies and the aviation industry. Such forward-looking statements are subject to many uncertainties and risks that are beyond the control of the Group. Actual events may be materially different from these forward-looking statements.

With the possible recovery of global economy and also the steady growth of local economy in 2014, the tourism market will develop rapidly and the growth in aviation market in China will also be maintained. However, with intensive competition in the industry resulting from the rapid growth of transportation ability in the domestic aviation market, rapid development of domestic and overseas low-cost airways, fluctuation of fuel prices due to geopolitical factors, fluctuation in RMB exchange rate and the impact of high-speed railways becoming normal, the Group will encounter a situation with both opportunities and challenges.

Based on its transformation and development, ability enhancement and brand building, the Group's overall direction for 2014 will be dedicated to the promotion of operation networking and experiential service, accelerating informatisation and marketisation, so as to strive for establishing a world class CEA.

In 2014, the Group will focus on: (1) reinforcing foundations of safety management and implementing safety responsibilities to ensure continued safe operation; (2) working around hub construction by optimising its route network and refining its cabin management in order to enhance its marketing ability of passenger and freight transport operation; (3) improving service procedures and refining service standard to improve its service quality and upgrade the Company's brand; (4) intensifying its efforts in comprehensive budget management to control costs strictly and expanding financing channels to reduce cost while increasing efficiency; (5) based on its information technology construction, accelerating the innovation of business models and continuing with the transformation and development of passenger and freight transport operations.

# Review of Operations and Management's Discussion and Analysis

**As a member of SkyTeam, the Group has extended its flight network from Shanghai to 1,024 cities in 178 countries via close cooperation with SkyTeam member airlines. Our Eastern Miles frequent flyer program now has more than 20 million members.**

Headquartered in Shanghai, the Group is one of the major airlines in China with business covering across the world. It is listed in Shanghai, Hong Kong and New York. Together with its subsidiaries Shanghai Airlines and China United Airlines, it provides safe and comfortable air journeys to passengers. In 2013, the Group has operated a fleet of 478 aircraft and provided service to nearly 80 million passengers all over the world. As a member of SkyTeam, the Group has extended its flight network from Shanghai to 1,024 cities in 178 countries via close cooperation with SkyTeam member airlines. Our Eastern Miles frequent flyer program now has more than 20 million members. Members of Eastern Miles frequent flyers club can participate in the mileage accumulation and redemption program of 19 SkyTeam member airlines and enjoy member benefits. Elite members can also use 530 VIP lounges across the world. With the vision of "establishing a world-class and happy CEA", the Group strives to become an airline company that is "cherished by staff, preferred by customers, satisfied by shareholders and trusted by society".

## Review of Operating Results

The following discussion and analysis should be read together with the Group's audited financial statements and the accompanying notes prepared in accordance with IFRS that are included elsewhere in this annual report. The financial data presented in this section are derived from the Group's audited financial statements prepared in accordance with IFRS.

### Operating revenues

In 2013, there was an increase in the Group's passenger revenues, which amounted to RMB72,928 million, representing an increase of 2.11% from the previous year, and accounting for 90.56% of the Group's traffic revenues in 2013. Passenger traffic volume was 120,461.13 million passenger-kilometres, representing a 10.40% increase from the previous year.

The passenger traffic volume of the Group's domestic routes was 82,811.97 million passenger-kilometres, representing an increase of 8.74% from the previous year. Compared to 2012, domestic passenger revenues increased by 0.83% to RMB50,556 million, accounting for 69.32% of the Group's passenger revenues.

The passenger traffic volume of the Group's international routes was 33,600.01 million passenger-kilometres, representing a 15.44 % increase from the previous year. Compared to 2012, international passenger revenues increased by 4.92% to RMB18,945 million, accounting for 25.98% of the Group's passenger revenues.

The passenger traffic volume of the Group's regional routes was 4,049.14 million passenger-kilometres, representing an increase of 5.12% from the previous year. Compared to 2012, regional passenger revenues increased by 6.39% to RMB3,427 million, accounting for 4.70% of the Group's passenger revenues.

In 2013, there was a slight decrease in the Group's cargo and mail traffic revenues, which amounted to RMB7,603 million, representing a decrease of 5.26% from the previous year, and accounting for 9.44% of the Group's traffic revenues in 2013. The decrease was mainly attributable to the decrease in demand for cargo traffic. Cargo and mail traffic volume was 4,857.18 million tonne-kilometres, representing an increase of 3.32% from last year.

In 2013, the other revenues were RMB7,714 million, representing an increase of 32.80% from the previous year, due to the increase in other revenues resulting from the acquisition of Eastern Travel by Shanghai Tours, a subsidiary of the Company, in 2013.

**Ma Xulun**
*Vice Chairman, President*

## Operating expenses

In 2013, the Group's total operating cost was RMB89,394 million, representing an increase of 8.05% from previous year.

Analysis of the changes in other items under operating costs of the Group is set out as follows:

Aircraft fuel costs account for the most substantial part of the Group's operating costs. In 2013, the average price of fuel decreased by 6.69% compared to that of last year. The Group's total aviation fuel consumption was approximately 4,598,700 tonnes, representing an increase of 10.08% from last year. Aviation fuel expenditures of the Group reached RMB30,681 million, representing an increase of 2.71% from last year.

Take-off and landing charges amounted to RMB9,190 million, or an increase of 1.37% from last year, and was primarily due to the increase in the number of take-off and landings from last year.

Gain on fair value movements of derivative financial instruments was RMB18 million, representing a decrease of 26.15% from previous year.

Depreciation and amortisation amounted to RMB8,226 million, representing an increase of 8.86% from last year, and was primarily due to the addition of new aircraft and engines, resulting in a greater base number for depreciation and amortisation of the Group.

Wages, salaries and benefits amounted to RMB13,454 million, representing an increase of 9.35% from last year, and was primarily due to an increase in number of staff and hours flown of pilots.

Aircraft maintenance expenses amounted to RMB4,690 million, representing an increase of 5.81% from last year, and was primarily due to an increase in the number of aircraft under repair.

Food and beverage expenses were RMB2,268 million, representing an increase of 11.66% from last year, and was primarily due to the increase in number of passengers.

Aircraft operating lease rentals amounted to RMB4,605 million, representing an increase of 3.77% from last year, and was primarily due to an increase in the number of aircraft held through operating leases in 2013.

Other operating lease rentals amounted to RMB679 million, representing an increase of 11.46% from last year, and was primarily due to an increase in the leases for VIP lounges at airports.

Selling and marketing expenses were RMB4,139 million, representing an increase of 11.04% from last year, and was primarily due to increased handling fees of agency businesses and an increase in reservation fees resulting from the growth in the number of passengers.

The amount of civil aviation infrastructure levies payable to the CAAC was RMB1,566 million, representing an increase of 10.69% compared to last year. This increase was primarily due to an increase in miles flown by the Group in 2013.

Ground services and other expenses were RMB5,105 million, representing an increase of 54.45% over the previous year, due to the increase in other charges arising from the acquisition of Eastern Travel by Shanghai Tours, a wholly-owned subsidiary of the Company, in 2013.

Other operating expenses were RMB4,809 million, representing an increase of 20.13% compared to last year. This increase was primarily attributable to an increase in expenses following the expansion of fleet of the Group.

## Other operating income

In 2013, other operating income of the Group amounted to RMB2,725 million, which is an increase of 48.70% from the same period last year, primarily due to an increase in operational routes subsidy.

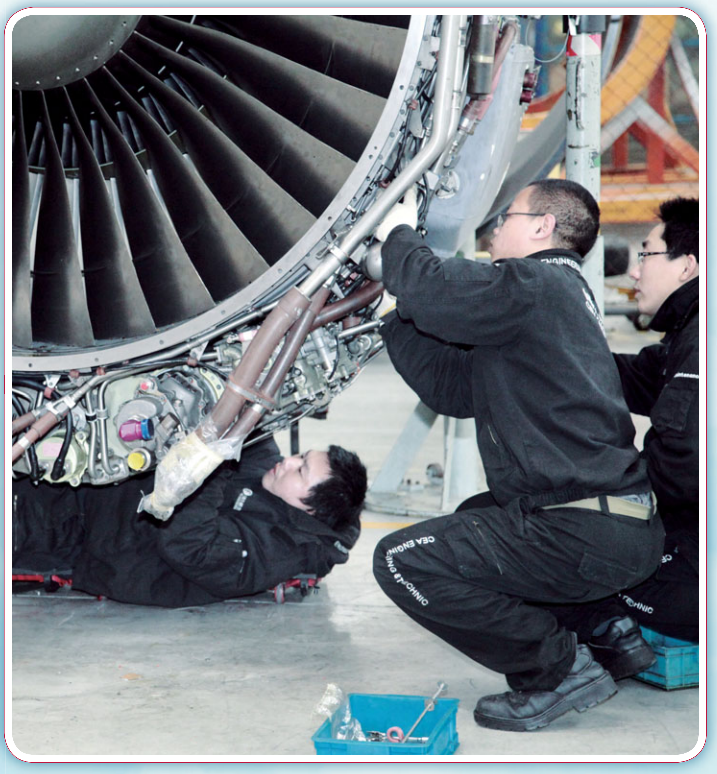
## Finance income/costs

In 2013, the Group's finance income was RMB2,124 million, which is an increase of 509.42% from RMB349 million of the same period last year, primarily due to the impact of fluctuations in RMB exchange rate. RMB substantially appreciated in 2013 while the exchange rate of RMB against USD had less fluctuations in 2012.

Finance costs amounted to RMB1,549 million, representing a decrease of 8.77% from last year, primarily due to a decrease in interest expenses arising from finance leases of aircraft.

## Profit

As a result of the foregoing, the Group's profit attributable to the equity shareholders of the Company in 2013 was RMB2,373 million, representing a 22.76% decrease as compared to the Group's profit attributable to the equity shareholders of the Company of RMB3,072 million in 2012. The decrease is mainly due to factors such as a decrease in demand of domestic business customers, effects resulting from the formation of high-speed railway network, routes to Japan being affected by China-Japan relations, the decrease in the Company's yield at Yunnan market resulting from the release of time slots at the new Kunming Airport and the occurrence of avian flu (H7N9) which brought short-term effects to the Eastern China market, as well as reasons such as rigid increase in costs and expenses.



## Liquidity and capital structure

The Group generally finances its working capital requirements through business operations and short-term bank loans. As at 31 December 2012 and 2013, the Group's cash and cash equivalents amounted to RMB2,512 million and RMB1,995 million, respectively. Net cash inflow generated from the Group's operating activities was RMB12,617 million and RMB10,806 million, respectively, for 2012 and 2013. Capital expenditures for the purchase of aircraft were partly funded by internal funds, the balance of which was mainly financed by long-term and short-term borrowings and finance leasing, etc.. In 2012 and 2013, the Group's net cash outflow from investment activities was RMB11,789 million and RMB17,028 million, respectively. In 2012, net cash outflow from the Group's financing activities was RMB2,174 million. In 2013, net cash inflow from the Group's financing activities was RMB5,730 million, which was primarily due to issue of corporate bonds and issue of shares in 2013.

The Group generally operates with net current liabilities. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB40,472 million. The Group has been and believes it will continue to be capable of financing its working capital by obtaining loans from banks and various financing tools such as bonds.

The Group monitors its capital on the basis of its debt ratio, which is calculated as total liabilities divided by total assets. As at 31 December 2013, the debt ratio of the Group was 79.59%.

As at 31 December 2012 and 2013, the Group's borrowings payable within one year were RMB22,640 million and RMB23,285 million, respectively. As at 31 December 2012, the Group's borrowings payable from one to two years, from three to five years and beyond five years were RMB7,273 million, RMB7,906 million and RMB7,918 million, respectively, as compared to RMB6,606 million, RMB9,952 million and RMB10,758 million, respectively, as at 31 December 2013.

As at 31 December 2012, the Group's borrowings comprised USD-denominated borrowings of USD5,028 million and RMB-denominated borrowings of RMB13,827 million. Fixed-rate borrowings accounted for 22.91% of the total borrowings, and floating-rate borrowings accounted for 77.09% of the total borrowings. As at 31 December 2013, the Group's borrowings comprised USD-denominated borrowings of USD5,776 million and RMB-denominated borrowings of RM15,386 million (including bonds and super short-term commercial papers). Fixed-rate borrowings accounted for 28.38% of the total borrowings, and floating-rate borrowings accounted for 71.62% of the total borrowings.

The Group's obligations under finance leases as at 31 December 2012 and 2013 were RMB21,858 million and RMB23,135 million, respectively. As at 31 December 2012, the Group's lease obligations payable within two years, from three to five years and beyond five years were RMB5,309 million, RMB7,925 million and RMB8,624 million, respectively, as compared to RMB5,945 million, RMB8,651 million and RMB8,539 million, respectively, as at 31 December 2013.

As at 31 December 2012, the Group's obligations under finance leases comprised USD-denominated obligations of USD2,983 million, SGD-denominated obligations of SGD245 million, HKD-denominated obligations of HKD1,468 million and JPY-denominated obligations of JPY9,136 million. As at 31 December 2013, the Group's obligations under finance leases comprised USD-denominated obligations of USD3,076 million, SGD-denominated obligations of SGD224 million, HKD-denominated obligations of HKD1,336 million and JPY-denominated obligations of JPY8,222 million. The Group's obligations under finance leases comprised only floating-rate obligations.

## Pledges on assets and contingent liabilities

The Group generally finances the purchases of aircraft through finance leases and bank loans secured by its assets. As at 31 December 2012, the value of the Group's assets used to secure certain bank loans was RMB22,544 million. As at 31 December 2013, the value of the Group's assets used to secure certain bank loans was RMB24,306 million, representing an increase of 7.82% compared to last year.

As at 31 December 2013, the Group had no significant contingent liabilities.

## Capital expenditure

According to the agreements entered into in relation to aircraft, engines and equipment, as at 31 December 2013, we expect our capital expenditures for aircraft, engines and related equipment to be, in the aggregate, approximately RMB140,640 million, including approximately RMB44,673 million in 2014 and RMB50,179 million in 2015, in each case subject to contractual changes or any change relating to inflation. We plan to finance our capital commitments through a combination of funds generated from operation, existing bank credit facilities, bank loans, leasing arrangements and other external financing arrangement.

### Capital Requirements

The foreseeable material capital expenditure of the Group are primarily for aircraft, engines and other fixed assets, among which other fixed assets mainly comprise infrastructure projects such as the CEA base (west) phase two ancillary project at Shanghai Hongqiao International Airport and the technological improvement project for Beijing aircraft affairs construction project.

For sources of fund, the Company comprehensively assessed and utilized various financing instruments such as domestic and overseas equity financing, debt financing, bank borrowings and interbank financial products, integrated with the cash flow position of its operating activities, to satisfy the fund requirements for construction projects and to maintain the normal operation of the Company.

### Interest rate fluctuation

The Group's total interest-bearing liabilities (including long-term and short-term borrowings, finance leases payable and bonds payable) as at 31 December 2012 and 2013 were RMB67,594 million and RMB73,736 million, respectively, of which short-term liabilities accounted for 37.35% and 35.62%, respectively, for those years. Most of the long-term interest-bearing liabilities were liabilities with floating interest rates. Both of the short-term liabilities and the long-term interest-being liabilities were affected by fluctuations in current market interest rates.

The Group's interest-bearing liabilities were primarily denominated in USD and RMB. As at 31 December 2012 and 2013, the Group's liabilities denominated in USD accounted for 74.5% and 75.61%, respectively, of total liabilities while liabilities denominated in RMB accounted for 20.46% and 20.87%, respectively, of total liabilities during those periods. Fluctuations in the USD and RMB interest rates have significantly impact on the Group's finance costs. As at 31 December 2012, the notional amount of the outstanding interest rate swap agreements was approximately USD929 million. As at 31 December 2013, such amount was USD844 million and these agreements will expire between 2014 and 2022.

### Exchange rate fluctuation

As at 31 December 2013, the Group's total interest-bearing liabilities denominated in foreign currencies, converted to RMB, amounted to RMB58,349 million, of which USD liabilities accounted for 95.55% of the total amount. Therefore, a significant fluctuation in foreign exchange rates will subject the Group to significant foreign exchange loss/gain arising from the translation of foreign currency denominated liabilities, which will also affect the profitability and development of the Group. The Group typically uses hedging contracts for foreign currencies to reduce the foreign exchange risks for foreign currency revenue generated from ticket sales and expenses to be paid in foreign currencies. The Group's foreign currency hedging contracts mainly involve the sales of JPY and the purchase of USD at fixed exchange rates. As at 31 December 2012, foreign currency hedging contracts held by the Group amounted to a notional amount of USD58 million. Such amount was USD38 million as at 31 December 2013, and will expire between 2014 and 2017.

The Group recorded a significant increase in net foreign exchange gains in 2013. As at 31 December 2012 and 2013, the Group's foreign exchange gains were RMB148 million and RMB1,976 million, respectively.

### Fluctuation of fuel prices

In 2013, assuming constant factors but excluding the effects of crude oil option contracts, if the average price of jet fuel had increased or decreased by 5%, jet fuel costs of the Group would have increased or decreased by approximately RMB1,534 million.

In 2013, the Group has not engaged in any aviation fuel hedging activities.

## Risk Analysis

### 1. Macro-economic Risk

Aviation transportation industry is closely related to domestic and international macro-economic atmosphere. Civil aviation transportation industry is more sensitive to macro-economic atmosphere which directly affects the development of economic activities, disposable income of residents and changes in amount of import and export. These factors will in turn affect the demand for air passengers and air cargo services. Therefore, if domestic or international macro-economic atmosphere worsens, operation results and financial position of the Group may be adversely affected.

### 2. Policy and regulation risk

Aviation transportation industry is relatively sensitive to domestic and international policies. Following the changes in domestic and foreign economic environment and the continuous development in aviation industry, relevant international and domestic regulations and industry policies may be adjusted accordingly. Such changes in policies may, to a certain extent, bring uncertainties to the future operating results of the Group.

### 3. Flight safety risk

Flight safety is the principle and foundation for an airlines to maintain normal operation and good reputation. Bad weather, mechanical disorder, human errors, aircraft discrepancies and other force majeure events may have adverse effects on flight safety of airlines.

### 4. Risk associated with outflow of talents

The aviation transportation industry in PRC has developed rapidly in recent years. At the same time, new entrants of the industry have gradually established airlines and launched their operations. This contributed to competition for core technical staff such as pilots, aircraft crew, operation and control staff as well as major management personnel among domestic airway companies. Failure to train and retain adequate number of core technical staff and management personnel in time may constitute significant adverse effects to the Group's production operation and business development.

### 5. Competition Risk

The "Twelfth Five-Year Plan" for civil aviation industry in China encourages low-cost airway companies to enter into major logistics market gradually. In February 2014, CAAC issued Guidance on Facilitating Low-cost Aviation Development (《關於促進低成本航空發展的指導意見》) which aims at supporting the development of domestic low-cost airlines. This will further intensify the competition in domestic aviation market.

In respect of international routes, following the development of economic globalization and the increasing frequency of global trading, the trend of monopoly competition in the future international aviation market will become more significant. The transformation from inter-alliance competition in alliance time to inter-association competition in post-alliance time will pose more international competition pressure to domestic aviation transportation enterprises.

There is a certain level of substitutability between railway transportation and air transportation in respect of medium to short distance transportations. With the construction of national high-speed railway network, there will be effects of high-speed railways towards civil aviation market. Some of the Group's routes will face competition from high-speed railways.

### 6. Risk associated with the fluctuation of fuel prices

Jet fuel is one of the major expenses of airway companies. The fluctuations of international crude oil prices and adjustments on domestic jet fuel prices by National Development and Reform Commission have impact on the Group's profitability. Therefore, significant fluctuation of future oil prices in the international market and adjustments on domestic jet fuel prices may have significant impact on the Group's operating results.

### 7. Interest rate fluctuation risk

The Group is engaged in a capital intensive industry and has a higher debt ratio. Majority of liabilities are attributable to USD liabilities and RMB liabilities resulting from introduction of aircraft. Therefore, changes in interest rates of USD and RMB may have significant impact on the Group's finance cost.

### 8. Exchange rate fluctuation risk

As liabilities of the Group are denominated in foreign currencies (such as USD) and foreign currency expenses in the Company's operation are generally higher than foreign currency income, the depreciation or appreciation of RMB against USD may significantly affect the results of the Group.

### 9. Information technology safety risk

The aviation transportation industry is highly dependent on network information system and it has penetrated to all aspects such as flight, service, marketing, aircraft affairs as well as the operation and control of the Company. Therefore, in the event that information systems such as computer and communication system encounter circumstances such as any disorder or suspension and hacker attack, there may be adverse effects to the production and operation of the Company or leakage of customer data which may affect the operation results and reputation of the Company.

### 10. Other force majeure and unforeseeable risks

The aviation transportation industry is highly sensitive to the external environment. Natural disasters such as earthquake, storm and tsunami, public health emergency, terrorist attack and political volatility may all affect the normal operation of airlines. Flight suspension, decrease in passenger capacity and income, as well as increase in safety and insurance cost may adversely affect the production and operation of the Company.

## Human Resources

As at 31 December 2013, the Group had 68,874 employees, the majority of whom were located in the PRC. The wages of the Group's employees generally consisted of basic salaries and performance bonuses. The Group was not involved in any major labour disputes with its employees, nor did it experience any significant turnover of employees or encounter any difficulties in recruiting new employees.

| | |
|---|---|
| Total number of staff | 68,874 |
| Number of staff of the Company | 42,747 |
| Number of staff of major subsidiaries | 26,127 |
| Number of retired staff whose expenses are committed by the Company and major subsidiaries | 4,955 |

### Composition of Professions

| Category | Number |
|---|---|
| Pilots | 5,841 |
| Flight attendants and other aircrew | 11,201 |
| Maintenance personnel | 10,933 |
| Ground services and others | 30,494 |
| Operation control | 2,097 |
| Information technology | 645 |
| Sales and marketing | 3,573 |
| Management | 4,090 |
| Total | 68,874 |

### Education Level

| Category | Number |
|---|---|
| Master and above | 1,207 |
| Bachelor | 23,346 |
| Non-degree tertiary | 24,897 |
| Other | 19,424 |
| Total | 68,874 |

## Employees Training Program

The Company puts great emphasis on employees training. Based on its talent development program, the Company improved the structure of its training system and developed multi-level, multi-channel and multi-way talent training to better satisfy the Company's business development needs and talent team building requirements.

## Management Personnel Training

The Company proactively developed leadership training programs at different levels, including "Qinghua University – Columbia University" study program, Fudan University EMBA program and GE cross-over study program. The Company launched a leadership study program for mid-level management personnel together with GE and Rolls-Royce to implement leadership improvement training and newly joined management training. 360 team leaders and group leaders were selected to receive training at Qinghua University.

## Core Technician Training

System organization of core technician training comprises assistant pilot elementary training, pilots upgrade training, aircraft model changing training, trainer basic theories and knowledge training simulated aircraft training, fresh flight attendants training, as well as annual re-training to have more co-training of different teams. In addition, the Company further enhanced training for professional staff such as aircraft affair staff and aircraft dispatchers in order to improve professional techniques so that safe aviation operation can be maintained.

## Substituting Talents Training

In 2013, with "CEA Leadership Model" as the basis of theories and "training by levels, rapid nurturing and growth of different phases" as the principles, the program group established "Yan Program" (燕計劃), "Yi Program" (翼計劃) and "Xiang Program" (翔計劃) which form an integrated training program system of substituting talents to improve the scientific and refined standards of the Company's talents training program. There were 13, 21 and 38 staff selected from "Yan Program", "Yi Program" and "Xiang Program" respectively in 2013. The Company improved the abilities of staff by means such as intrusive training, professional operation training management program training and theme research.

## E-learning Platform

The Eastern Airlines E-learning website established a mobile learning platform for all staff of the Company. Staff can study programs of different categories at any time through the intranet of the Company. Programs include five branded programs, such as Corporate Strategies – An Intensive Analysis on the Secrets of CEA's Strategies, which are mainly conducted by senior management, over ten professional programs such as Fleet Resource Management and Case Study on Aircraft Affairs, as well as 8 soft technique programs such as Service Before You Speak and English Letters.

## Critical Accounting Policies

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

Our audited consolidated financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set forth in Note 2 to our audited consolidated financial statements. IFRS requires that we adopt the accounting policies and make estimates that our directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial position. However, different policies, estimates and assumptions in critical areas could lead to materially different results. The critical accounting policies adopted and estimates and assumptions made in the preparation of these financial statements are identified and set forth in Note 4 to our audited consolidated financial statements.

## Taxation

The Company is subject to income tax at a rate of 25% (2012: 25%). Our effective tax rate, however, may be lower than the rate of 25% because certain subsidiaries were incorporated in jurisdictions where the applicable income tax rate is 16.5% or 15% rather than 25%. We had carried forward tax losses of approximately RMB5,239 million as at 31 December 2013 (2012: RMB6,169 million), which can be used to set off future taxable income between 2014 and 2018.

The Board is pleased to present the audited financial report of the Group for the year ended 31 December 2012.

## Group Activities and Results

The Company, with its headquarters in Shanghai, is one of the three largest air carriers in the PRC in terms of the total tonne-kilometres and number of passengers carried in 2013. The results of the Group for the year ended 31 December 2013 and the financial position of the Company and the Group as at that date, prepared in accordance with IFRS and PRC Accounting Standards, are set out in the financial statements.

Details of the Company's principal subsidiaries are set out in note 22 to the financial statements of the Group prepared in accordance with IFRS.

The geographical analysis of the Group's revenue from its business is as follows:

## Revenue

| | PRC Accounting Standard RMB'000 | IFRS RMB'000 |
|---|---|---|
| Domestic | 59,327,292 | 59,563,056 |
| Regional (Hong Kong, Macau and Taiwan) | 3,910,530 | 3,910,530 |
| International | 24,771,414 | 24,771,414 |
| Total | 88,009,236 | 88,245,000 |

## Dividends

Based on the auditing of Ernst & Young Hua Ming LLP (安永華明會計師事務所(特殊普通合伙)) to the financial report of the Company for the year 2013, the parent company recorded a net profit of RMB933 million for the year 2013 and accumulated loss of the parent company was RMB2,258 million as at 31 December 2013 under the PRC accounting standards.

Pursuant to the Company Law and the Articles of Association, the Company shall make good its losses incurred in previous years with its profit for the year before any profit distribution to the Shareholders. Although the Company recorded profit for recent years, the accumulated undistributed profit of the parent company for previous years was negative and loss is not completely recovered. As such, the board of directors of the Company agreed that no profit shall be distributed in respect of the year 2013 and no share capital of the Company shall be increased through capitalization of its capital reserve. The independent non-executive directors of the Company consider the above profit distribution proposal is in line with the objective condition of the Company and it is in compliance with relevant laws, regulations and the Articles of Association. There is no matter which would prejudice the interest of investors, the minority shareholders' interest in particular. The proposal for the year 2013 shall be submitted to the 2013 annual general meeting for consideration.

## Share Capital Structure

As at 31 December 2013, the share capital structure of the Group is set out as follows:

| | | | Total number of shares | Approximate percentage in total share capital (%) |
|---|---|---|---|---|
| I | **A Shares** | | | |
| | 1. | Listed shares with trading moratorium | 698,865,000 | 5.514 |
| | 2. | Listed shares without trading moratorium | 7,782,213,860 | 61.402 |
| II | **H Shares** | | | |
| | 1. | Listed shares with trading moratorium | 698,865,000 | 5.514 |
| | 2. | Listed shares without trading moratorium | 3,494,325,000 | 27.570 |
| III | **Total number of shares** | | 12,674,268,860 | 100 |

Notes:

1. The 698,865,000 A shares, which are listed shares with trading moratorium issued on the Shanghai Stock Exchange by the Company to its controlling shareholder, CEA Holding and its wholly-owned subsidiary, CES Finance, by way of non-public issuance on 16 April 2013, are subject to a lock-up period of 36 months. For details, please refer to the announcement of the Company dated 17 April 2013 issued in Hong Kong.

2. The 698,865,000 H shares, which are listed shares with trading moratorium issued on the Hong Kong Stock Exchange by the Company to CES Global, an overseas wholly-owned subsidiary of CEA Holding, by way of specific issuance on 21 June 2013, are subject to a lock-up period of 36 months. For details, please refer to the announcement of the Company dated 21 June 2013 issued in Hong Kong.

3. As at the date of this announcement, the Company had 698,865,000 listed A shares with trading moratorium held by CEA Holding and its wholly-owned subsidiary, CES Finance, and 7,782,213,860 listed A shares without trading moratorium. The Company also had 698,865,000 listed H shares with trading moratorium held by CES Global, an overseas wholly-owned subsidiary of CEA Holding, and 3,494,325,000 listed H shares without trading moratorium. The total number of shares amounted to 12,674,268,860 shares.

## Number of Shareholders

As at 31 December 2013, the total number of registered Shareholders was 243,632, of which 242,968 are holders of A shares and 664 are holders of H shares.

## Substantial Shareholders

So far as the Directors are aware, each of the following persons, not being a Director, chief executive, Supervisor or member of the Company's senior management, had, as at 31 December 2013, an interest and/or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise, as at 31 December 2013, interested in 5% or more of any class of the then issued share capital of the Company, or was otherwise, as at 31 December 2013, a substantial shareholder (as defined in the Listing Rules) of the Company:

| | | | As at 31 December 2013 | | |
|---|---|---|---|---|---|
| Name of Shareholders | Type of shares held | Number of shares held | Percentage of shareholding in the Company's total issued share capital | Percentage of shareholding in the Company's total issued A shares | Percentage of shareholding in the Company's total issued H shares |
| CEA Holding (Note 1) | A shares | 5,530,240,000 | 43.64% | 65.21% | — |
| CEA Holding (Note 2) | H shares | 2,626,240,000 | 20.72% | — | 62.63% |
| HKSCC Nominees Limited (Notes 3 to 5) | H shares | 4,178,383,298 | 32.97% | — | 99.65% |

Notes:

Based on the information available to the Directors as at 31 December 2013 (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as they are aware of, as at 31 December 2013:

1. Among such A shares, 5,072,922,927 A shares (representing approximately 59.81% of the Company'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 5.39% of the Company'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 4,178,383,298 H shares held by HKSCC Nominees Limited, 2,626,240,000 H shares (representing approximately 62.63% of the Company'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.

4. Among the 4,178,383,298 H shares held by HKSCC Nominees Limited, JPMorgan Chase & Co. had, through controlled corporations, an interest in an aggregate of 297,315,452 H shares (representing approximately 7.09% of the Company's then total issued H shares). JPMorgan Chase & Co. had interest in the aforesaid 297,315,452 H shares of the Company in manner as follows:

   (a) 117,110,000 H shares (representing approximately 2.79% of the Company's then total issued H shares) were held by JF Asset Management Limited in the capacity of investment manager, which in turn was 100% held by JPMorgan Asset Management (Asia) Inc., which in turn was 100% held by JPMorgan Asset Management Holdings Inc., which in turn was 100% held by JPMorgan Chase & Co.;

   (b) 100,243,000 H shares (representing approximately 2.39% of the Company's then total issued H shares) were held in lending pool by JPMorgan Chase Bank, N.A. in the capacity of custodian corporation/approved lending agent, which in turn was 100% held by JPMorgan Chase & Co..

   (c) 24,516,000 H shares (representing approximately 0.58% of the Company's then total issued H shares) were held by China International Fund Management Co Ltd. in the capacity of investment manager, which in turn was 49% held by JPMorgan Asset Management (UK) Limited, which in turn was 100% held by JPMorgan Asset Management Holdings (UK) Limited, which in turn was 100% held by JPMorgan Asset Management International Limited, which in turn was 100% held by JPMorgan Asset Management Holdings Inc., which in turn was 100% held by JPMorgan Chase & Co.; and

   (d) 16,138,000 H shares (representing approximately 0.38% of the Company's then total issued H shares) were held by JPMorgan Asset Management (Taiwan) Limited in the capacity of investment manager, which in turn was 100% held by JPMorgan Asset Management (Asia) Inc., which in turn was 100% held by JPMorgan Asset Management Holdings Inc., which in turn was 100% held by JPMorgan Chase & Co.;

   (e) 14,654,000 H shares (representing approximately 0.35% of the Company's then total issued H shares) were held by JF International Management Inc. in the capacity of investment manager, which in turn was 100% held by JPMorgan Asset Management (Asia) Inc., which in turn was 100% held by JPMorgan Asset Management Holdings Inc., which in turn was 100% held by JPMorgan Chase & Co.;

   (f) 13,040,000 H shares (representing approximately 0.31% of the Company's then total issued H shares) were held by JPMorgan Asset Management (Singapore) Limited in the capacity of investment manager, which in turn was 100% held by JPMorgan Asset Management (Asia) Inc., which in turn was 100% held by JPMorgan Asset Management Holdings Inc., which in turn was 100% held by JPMorgan Chase & Co.;

   (g) 6,647,750 H shares (representing approximately 0.16% of the Company's then total issued H shares) were held by J.P. Morgan Clearing Corp in the capacity of beneficial owner, which in turn was 100% held by J.P. Morgan Securities LLC, which in turn was 100% held by J.P. Morgan Broker-Dealer Holdings Inc, which in turn was 100% held by JPMorgan Chase & Co.;

   (h) 3,496,702 H shares (representing approximately 0.08% of the Company's then total issued H shares) were held by J.P. Morgan Whitefriars Inc. in the capacity of beneficial owner, which in turn was 100% held by J.P. Morgan Overseas Capital Corporation, which in turn was 100% held by J.P. Morgan International Finance Limited, which in turn was 100% held by Bank One International Holdings Corporation, which in turn was 100% held by J.P. Morgan International Inc., which in turn was 100% held by JPMorgan Chase Bank, N.A., which in turn was 100% held by JPMorgan Chase & Co.;

   (i) 1,470,000 H shares (representing approximately 0.04% of the Company's then total issued H shares) were held by JPMorgan Management (Japan) Limited in the capacity of investment manager, which in turn was 100% held by JPMorgan Asset Management (Asia) Inc., which in turn was 100% held by JPMorgan Asset Management Holdings Inc., which in turn was 100% held by JPMorgan Chase & Co..

5. Among the 4,178,383,298 H shares held by HKSCC Nominees Limited, JPMorgan Chase & Co. also had, through controlled corporations, a short position in an aggregate of 399,856 H shares (representing approximately 0.0095% of the Company's then total issued H shares). Such short position of 399,856 H shares were held by J.P. Morgan Whitefriars Inc. in the capacity of beneficial owner, which in turn was 100% held by J.P. Morgan Overseas Capital Corporation, which in turn was 100% held by J.P. Morgan International Finance Limited, which in turn was 100% held by Bank One International Holdings Corporation, which in turn was 100% held by J.P. Morgan International Inc., which in turn was 100% held by JPMorgan Chase Bank, N.A., which in turn was 100% held by JPMorgan Chase & Co..

Save as disclosed above, based on the information available to the Directors and so far as they are aware, as at 31 December 2013, among the 4,178,383,298 H shares held by HKSCC Nominees Limited, no other person had any interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

According to the relevant disclosure requirements laid down by the CSRC, as at the end of the Reporting Period, the 10 largest registered Shareholders and the 10 largest registered listed stock Shareholders on the register of members of the Company and their respective shareholdings are as follows:

**THE 10 LARGEST REGISTERED SHAREHOLDERS OF THE COMPANY AND THEIR RESPECTIVE SHAREHOLDINGS**

| | Name of Shareholders | Increase/ (decrease) in shareholding in 2013 | Shareholding as at 31 December 2013 | Percentage (%) | Type of shares | Charged or locked-up shares | Nature of shares held |
|---|---|---|---|---|---|---|---|
| 1. | CEA Holding | 241,547,927 | 5,072,922,927 | 40.03 | 241,547,927 shares with trading moratorium | Nil | A shares |
| 2. | HKSCC (including CES Global) | 699,640,999 | 4,178,383,298 | 32.97 | 698,865,000 shares with trading moratorium (2,626,240,000 shares held by CES Global) | Unknown | H shares |
| 3. | CES Finance | 457,317,073 | 457,317,073 | 3.61 | 457,317,073 shares with trading moratorium | Nil | A shares |
| 4. | Shanghai Alliance Investment Limited | 0 | 427,085,429 | 3.37 | Listed | Unknown | A shares |
| 5. | China National Aviation Fuel Holding Company | 0 | 421,052,632 | 3.32 | Listed | Unknown | A shares |
| 6. | Jin Jiang International Holdings Company Limited | 0 | 343,288,860 | 2.71 | Listed | Unknown | A shares |
| 7. | Aerospace Capital Holding Co., Ltd. | 0 | 99,088,580 | 0.78 | Listed | Unknown | A shares |
| 8. | Sinotrans Air Transportation Development Co., Ltd. | 0 | 83,157,894 | 0.66 | Listed | Unknown | A shares |
| 9. | Everbright Securities Company Limited – Customer Credit Trading Guarantee Securities Account | 32,705,317 | 32,705,317 | 0.26 | Listed | Unknown | A shares |
| 10. | Bank of China Group Investment Limited | 0 | 21,997,755 | 0.17 | Listed | Unknown | A shares |

| THE 10 LARGEST REGISTERED SHAREHOLDERS OF SHARES WITHOUT TRADING MORATORIUM AND THEIR RESPECTIVE SHAREHOLDINGS | | | |
|---|---|---|---|
| Name of Shareholders | | Shareholding of stocks without trading moratorium as at 31 December 2013 | Type of shares held |
| 1. | CEA Holding | 4,831,375,000 | A shares |
| 2. | HKSCC (including CES Global) | 3,479,518,298 | H shares |
| 3. | Shanghai Alliance Investment Limited | 427,085,429 | A shares |
| 4. | China National Aviation Fuel Holding Company | 421,052,632 | A shares |
| 5. | Jin Jiang International Holdings Company Limited | 343,288,860 | A shares |
| 6. | Aerospace Capital Holding Co., Ltd. | 99,088,580 | A shares |
| 7. | Sinotrans Air Transportation Development Co., Ltd. | 83,157,894 | A shares |
| 8. | Everbright Securities Company Limited – Customer Credit Trading Guarantee Securities Account | 32,705,317 | A shares |
| 9. | Bank of China Group Investment Limited | 21,997,755 | A shares |
| 10. | Shanghai Light Industry Co., Ltd. for Foreign Economic & Technical Co-operation | 18,574,343 | A shares |

Description of any related party or concert party relationship among the above Shareholders:

CES Finance was 100% held by CEA Holding; among the 4,178,383,298 shares held by HKSCC, 2,626,240,000 H shares were held by CES Global in the capacity of beneficial owner, which in turn was 100% held by CEA Holding. The Company is not aware of any related party or concert party relationship among other Shareholders of stocks without trading moratorium.

| THE 10 LARGEST REGISTERED SHAREHOLDERS OF SHARES WITH TRADING MORATORIUM AND THEIR RESPECTIVE SHAREHOLDINGS | | | | | |
|---|---|---|---|---|---|
| | | | Details of listing availability for shares with trading moratorium | | |
| Name of Shareholders | | Shareholding of shares with trading moratorium | Date available for listing | Additional number of shares available for listing | Trading moratorium condition |
| 1 | CEA Holding | 241,547,927 | 17 April 2016 | 241,547,927 | Non-listed, locked-up for 36 months |
| 2 | CES Finance | 457,317,073 | 17 April 2016 | 457,317,073 | Non-listed, locked-up for 36 months |
| 3 | CES Global | 698,865,000 | 22 June 2016 | 698,865,000 | Non-listed, locked-up for 36 months |

Description of any related party or concert party relationship among the above Shareholders:

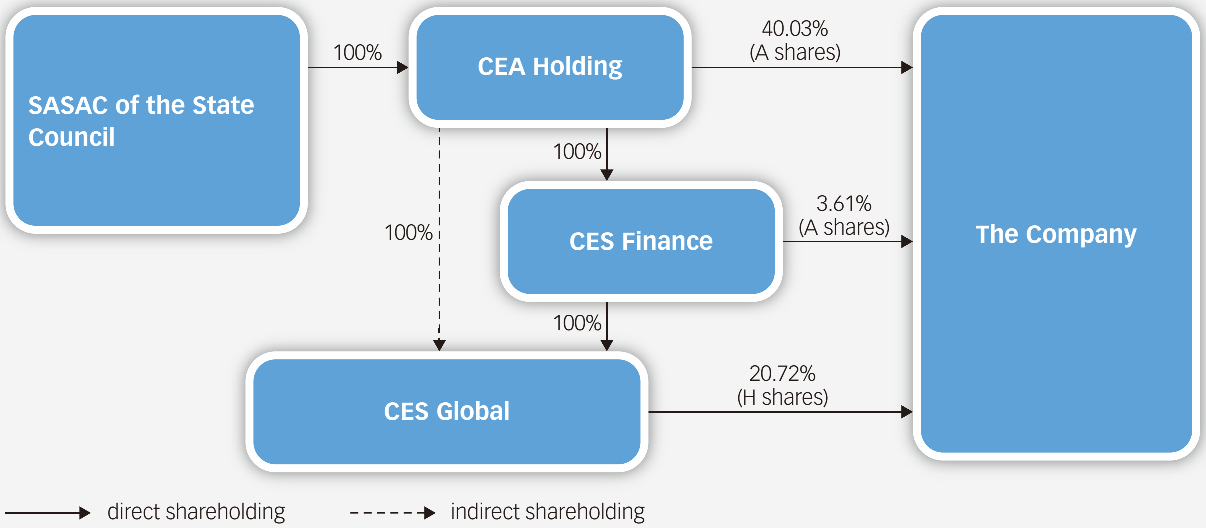
CES Finance was 100% held by CEA Holding; CES Global was 100% held by CEA Holding.

## Controlling Shareholder and Effective Controller

There has been no change in the Company's controlling shareholder in the year.

CEA Holding is the controlling shareholder of the Company and its legal representative is Mr. Liu Shaoyong. It was established on 3 August 2002. Its organization code is 74424573-X and its registered capital amounts to RMB12,876,321,000. CEA Holding's scope of business includes the management of all state-owned assets and state-owned equity of its group and its investment enterprises which are formed by state investment. CEA Holding, headquarter based in Shanghai, is one of the three largest core state-owned aviation transportation group as central enterprises under the State-owned Assets Supervision and Administration Commission ("SASAC") of the State Council of the PRC. Since 2009, CEA Holding earned profit consecutively. It proactively adapted to the new changes in both domestic and overseas market and followed the development trend of air transportation industry. With "being outstanding and strengthened by scientific development" as the subject and "reformation, innovation, transformation and development" as the main direction, CEA Holding innovated and transformed its business model to facilitate the synergetic development of air transportation industry and related industries and to support the Company to become a competitive world class air transportation enterprise. As at 31 December 2013, no share of the Company held by CEA Holding was pledged.

The effective controller of the Company is SASAC of the State Council.




## Purchase, Sale or Redemption of Securities

During the financial year of 2013, neither the Company nor its subsidiaries purchased, sold or redeemed any of its listed securities ("**Securities**", having the meaning ascribed thereto under Section 1 of Appendix 16 to the Listing Rules).

## Significant Differences between the Corporate Governance Practices of the Company and the Corporate Governance Practices required to be followed by U.S. Companies Under the New York Stock Exchange's Listing Standards

As a company incorporated in the PRC and listed on the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the NYSE, the Company is subject to not only applicable PRC laws and regulations, including the PRC Company Law, the PRC Securities Law, the Corporate Governance Standards for Listed Companies and Guidance Opinions regarding the Establishment of the Independent Director System in Listed Companies (the "**Independent Director Guidance**"), but also Hong Kong laws and regulations, including the Listing Rules, the Companies Ordinance and the SFO, as well as applicable U.S. federal securities laws and regulations, including the U.S. Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002. Based on NYSE's listing standards, the NYSE imposes a series of corporate governance standards for companies listed on the NYSE. However, the NYSE permits foreign private issuers to follow their respective "home country" practices and grants waivers for compliance with certain corporate governance standards. One of the conditions for such waiver is for the foreign private issuer to disclose in its annual report how the corporate governance practices in its "home country" differ from those required of U.S. companies under the NYSE's listing standards.

In accordance with the requirements of Section 303A.11 of the NYSE Listed Company Manual, the following is a summary of the significant differences between the Company's corporate governance practices and those required to be followed by U.S. companies under the NYSE's listing standards:

Section 303A.01 of the NYSE Listed Company Manual provides that the Board of the listed companies must have a majority of independent Directors. As a company listed in the PRC, the Company is subject to the requirement under the Independent Director Guidance that at least one-third of the Board be independent as determined thereunder. As a company listed in Hong Kong, the Company is also subject to the requirement under the Listing Rules that at least three members of the Board shall be independent, and at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise. The Company currently has five independent non-executive Directors out of a total of eleven Directors. The standards for establishing independence set forth under either the Independent Director Guidance or the Listing Rules differ from those set forth in the NYSE Listed Company Manual. Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. The Company is not required under the applicable PRC law to hold such executive sessions.

Section 303A.04 of the NYSE Listed Company Manual provides that listed companies must have a nominating/corporate governance committee composed entirely of independent directors. The establishment of the Nomination Committee was considered and resolved and its charter was passed at the third regular meeting of the fifth session of the Board held on 28 April 2009. The merging of the Nomination Committee and the Remuneration and Appraisal Committee into the Nominations and Remuneration Committee was agreed at the 36th ordinary meeting of the fifth session of the Board held on 19 March 2010 and the "Working Rules of the Nominations and Remuneration Committee" was passed. The Nominations and Remuneration Committee consists of three members, two of which are independent non-executive Directors of the Company. Section 303A.04 of the NYSE Listed Company Manual also provides that the nominating/corporate governance committee of a listed company must have a written charter that addresses the committee's purpose and responsibilities, which include, among others, the development and recommendation of corporate governance guidelines to the listed company's board of directors. The Board is directly responsible for developing the Company's corporate governance guidelines.

Section 303A.05 of the NYSE Listed Company Manual provides that listed companies must have a compensation committee composed entirely of independent directors. Under the Listing Rules, a majority of the members of the remuneration committee must be independent non-executive directors. The merging of the Nomination Committee and the Remuneration and Appraisal Committee into the Nominations and Remuneration Committee was agreed at the 36th ordinary meeting of the fifth session of the Board held on 19 March 2010. The Nominations and Remuneration Committee of the Company is composed of two independent non-executive Directors and one Director.

Section 303A.10 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. As required under the Sarbanes-Oxley Act of 2002, the Company has adopted a code of ethics that is applicable to the Company's Directors, Supervisors, President, Chief Financial Officer and other members of senior management.

## Pre-Emptive Rights

Under the Articles of Association and the PRC laws, no pre-emptive right exists, which requires the Company to offer new shares to its existing Shareholders on a pro rata basis.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors believe that the Company has at all times during the year ended 31 December 2013 maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08(1)(a) of the Listing Rules.

## Shareholdings of Directors, Supervisors and Senior Management

Names, relevant information of and shares held by the Directors, the Supervisors and members of senior management of the Company as at 31 December 2013 are as follows:

| Name | Position | Age | Number of listed A shares of the Company held – personal interest (shares) | Capacity in which the A shares were held | Effective date and expiry date of appointment | |
|---|---|---|---|---|---|---|
| Liu Shaoyong | Chairman | 55 | 0 | | 26 June 2013 | 30 June 2016 |
| Ma Xulun | Vice Chairman, President | 50 | 0 | | 26 June 2013 | 30 June 2016 |
| Xu Zhao | Director | 45 | 0 | | 26 June 2013 | 30 June 2016 |
| Gu Jiadan | Director | 58 | 0 | | 26 June 2013 | 30 June 2016 |
| Li Yangmin | Director, Vice President | 51 | 3,960 (Note 1) | Beneficial Owner | 26 June 2013 | 30 June 2016 |
| Tang Bing | Director, Vice President | 47 | 0 | | 26 June 2013 | 30 June 2016 |
| Sandy Ke-Yaw Liu | Independent non-executive Director | 66 | 0 | | 26 June 2013 | 30 June 2016 |
| Ji Weidong | Independent non-executive Director | 57 | 0 | | 26 June 2013 | 30 June 2016 |
| Shao Ruiqing# | Independent non-executive Director | 57 | 0 | | 26 June 2013 | 30 June 2016 |
| Li Ruoshan | Independent non-executive Director | 65 | 0 | | 26 June 2013 | 30 June 2016 |
| Ma Weihua | Independent non-executive Director | 66 | 0 | | 29 October 2013 | 30 June 2016 |
| Yu Faming | Chairman of the Supervisory Committee | 60 | 0 | | 26 June 2013 | 30 June 2016 |

# Mr. Shao Ruiqing has applied for resignation from his duties as an independent non-executive Director, the chairman and a committee member of the audit and risk management committee and a committee member of the planning and development committee of the Board, with effect upon the election of a new committee member and the new chairman of the audit and risk management committee by the Company.

| Name | Position | Age | Number of listed A shares of the Company held – personal interest (shares) | Capacity in which the A shares were held | Effective date and expiry date of appointment | |
|---|---|---|---|---|---|---|
| Xi Sheng | Supervisor | 51 | 0 | | 26 June 2013 | 30 June 2016 |
| Ba Shengji | Supervisor | 56 | 0 | | 26 June 2013 | 30 June 2016 |
| Feng Jinxiong | Supervisor | 52 | 0 | | 26 June 2013 | 30 June 2016 |
| Yan Taisheng | Supervisor | 60 | 0 | | 26 June 2013 | 30 June 2016 |
| Shu Mingjiang | Vice President | 46 | 0 | | 26 June 2013 | 24 March 2014 |
| Wu Yongliang | Vice President, Chief Financial Officer | 51 | 3,696 (Note 2) | Beneficial Owner | 26 June 2013 | 30 June 2016 |
| Tian Liuwen | Vice President | 55 | 0 | | 26 June 2013 | 30 June 2016 |
| Feng Liang | Vice President | 50 | 0 | | 27 August 2013 | 30 June 2016 |
| Sun Youwen | Vice President | 54 | 83,531 (Note 3) | Beneficial Owner | 24 March 2014 | 30 June 2016 |
| Wang Jian | Board Secretary, Joint Company Secretary, Authorised Representative | 41 | 0 | | 26 June 2013 | 30 June 2016 |
| Luo Zhuping | Director | 61 | 11,616 (Note 4) | Beneficial Owner | 27 June 2010 | 26 June 2013 |
| Wu Xiaogen | Independent non-executive Director | 48 | 0 | | 27 June 2010 | 26 June 2013 |
| Liu Jiashun | Supervisor | 57 | 3,960 (Note 1) | Beneficial Owner | 27 June 2010 | 26 June 2013 |
| Total | – | – | 106,763 | | – | – |

Note 1: representing approximately 0.000031% of the Company's total issued shares as at 31 December 2013.

Note 2: representing approximately 0.000029% of the Company's total issued shares as at 31 December 2013.

Note 3: representing approximately 0.000659% of the Company's total issued shares as at 31 December 2013.

Note 4: representing approximately 0.000091% of the Company's total issued shares as at 31 December 2013.

## H Shares Appreciation Rights

In 2012, the Company implemented H shares appreciation rights scheme for the first time. The board of directors of the Company authorized and confirmed the date of grant for the first scheme was 30 November 2012 and the granting price was HK$2.67. The H share appreciation rights granted under this scheme shall be valid for a period of 5 years from the date of grant. The lock-up period of the share appreciation rights shall be the 24 months from the date of grant, during which no share appreciation right shall be exercised. Subject to the satisfaction of performance appraisal indicators, incentive recipients may exercise their share appreciation rights in equal installments within three years (36 months) after the expiration of the lock-up period (i.e. to be effective for 1/3 annually).

The particulars of H shares appreciation rights granted to the Directors and senior management of the Company were as follows:

| Name | Position | Number of shares appreciation rights granted (Ten thousand shares) | Granting Price (HK$) | Market price of H shares as at the end of 2013 (HK$) |
|---|---|---|---|---|
| Liu Shaoyong | Chairman | 100 | 2.67 | 2.92 |
| Ma Xulun | Vice Chairman, President | 100 | 2.67 | 2.92 |
| Xu Zhao | Director | 86 | 2.67 | 2.92 |
| Gu Jiadan | Director | 86 | 2.67 | 2.92 |
| Li Yangmin | Director, Vice President | 86 | 2.67 | 2.92 |
| Tang Bing | Director, Vice President | 86 | 2.67 | 2.92 |
| Shu Mingjiang | Vice President | 71 | 2.67 | 2.92 |
| Wu Yongliang | Vice President, Chief Financial Officer | 71 | 2.67 | 2.92 |
| Tian Liuwen | Vice President | 71 | 2.67 | 2.92 |
| Feng Liang | Vice President | 57 | 2.67 | 2.92 |
| Sun Youwen | Vice President | 57 | 2.67 | 2.92 |
| Wang Jian | Board secretary, Joint Company Secretary, Authorised Representative | 57 | 2.67 | 2.92 |

For information related to the shares appreciation rights of the Company, please refer to the relevant announcements of the Company dated 27 August 2012, 19 October 2012, 9 November 2012 and 30 November 2012 which are published on the website of the Hong Kong Stock Exchange.

There was no granting and exercise of rights under the H shares appreciation rights of the Company during 2013.

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

**Mr. Liu Shaoyong** is currently the Chairman of the Company and president and deputy 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 Company, and director general of Flight Standard Department of CAAC. Mr. Liu served as President of the Company 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 Airlines Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from November 2004 to December 2008. In December 2008, Mr. Liu was appointed as president and deputy party secretary of CEA Holding, and became the Chairman of the Company since 3 February 2009. Mr. Liu is also currently the board member of International Air Transport Association, the board member of Association for Relations Across the Taiwan Straits and the vice chairman of the first session of the supervisory committee of China's Listed Companies Association. Mr. Liu graduated from the China Civil Aviation Flight College and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. Mr. Liu holds the title of commanding pilot.

**Mr. Ma Xulun** is currently the Vice Chairman, President and Deputy Party Secretary of the Company, and 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 and vice president of general affairs of Air China International Corporation Limited. Later on, Mr. Ma served as president and deputy party secretary of Air China International Corporation Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) 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 Company and deputy party secretary of CEA Holding. Since February 2009, Mr. Ma has become a Director of the Company. Mr. Ma served as party secretary of CEA Holding and Vice Chairman of the Company with effect from November 2011. Mr. Ma is also currently the Deputy Director-General 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 certified accountant.

**Mr. Xu Zhao** is currently a Director of the Company, 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 Company from June 2007 to November 2011. Mr. Xu was an independent non-executive director of Yingde Gases Group Company Limited (a company listed on the Hong Kong Stock Exchange) with effect from September 2009 to December 2013. He has served as a Director of the Company 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 Company, and vice president and a party member of CEA Holding. Mr. Gu was the assistant to president, and the general manager of the commerce department and the party secretary of Shanghai Airlines Co., Ltd. (上海航空股份有限公司). From May 2005 to August 2009, he was a party member and vice president of Shanghai Airlines Co., Ltd. (上海航空股份有限公司). From August 2009 to January 2010, he was the acting president of Shanghai Airlines Co., Ltd. (上海航空股份有限公司). From January 2010 to July 2011, he was vice president and a party member of CEA Holding and the party secretary of Shanghai Airlines. Since July 2011, Mr. Gu has served as the vice president and a party member of CEA Holding. He was appointed a Director of the Company with effect from June 2012. Mr. Gu Jiadan holds a master's degree and is a senior economist.

**Mr. Li Yangmin** is currently a Director, Party Secretary and Vice President of the Company, and a party member 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 (航線部) of Northwest Company (西北航空公司), general manager of the aircraft maintenance base of CEA Northwest and vice president of China Eastern Air Northwest Branch Company. Since October 2005, he has also been a Vice President of the Company. He served as Safety Director of the Company 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 Company with effect from June 2011. 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 (EMBA) degree from Fudan University. He is also a qualified senior engineer.

**Mr. Tang Bing** is currently a Director, Vice President of the Company, and party member of CEA Holding. Mr. Tang joined the civil aviation industry in 1993. He served as vice executive president (general manager in China Office) of 珠海摩天宇發動機維修有限公司 (MTU Maintenance Zhuhai Co., Ltd.), office director of China Southern Airlines Holding Company and president of 重慶航空有限公司 (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 Airlines Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange). From May 2009 to December 2009, he was appointed as president of the Beijing Branch of the Company and was the president of Shanghai Airlines from January 2010 to December 2011. He served as a Vice President of the Company since February 2010, and was appointed a party member of CEA Holding in May 2011 and a Director of the Company in June 2012. Mr. Tang graduated from Nanjing University of Aeronautics and Astronautics majoring in electrical technology. He obtained a Master of Business Administration (MBA) degree from the Administration Institute of Sun Yat-sen University, an Executive Master of Business Administration (EMBA) 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. Sandy Ke-Yaw Liu** is currently an Independent Non-executive Director of the Company. He joined the civil aviation industry in Taiwan in 1969 and served in 台灣中華航空公司 (China Airlines) in various capacities, including airport manager in Honolulu International Airport, marketing director for the Americas, general manager for Hawaii District, regional director for Europe, director of corporate planning and director of marketing planning in its Corporate Office in Taiwan. With China Airlines, he also served as vice president for marketing and sales and vice president for commerce, and president in the Corporate Office. In addition, Mr. Liu served as a director of 台灣華信航空 (Taiwan Mandarin Airlines), 台灣遠東航空 (Taiwan Far Eastern Air Transport), 台灣華膳空廚 (Taiwan China Pacific Catering Service) and 台灣桃園航勤服務公司 (Taiwan Taoyuan International Airport Service Company), as well as chairman of 台灣華儲物流公司 (Taiwan Air Cargo Terminal). He served as the chief operating officer for the Asia region of Hong Kong International Logistics Company (香港國際物流公司). Mr. Liu has served as an Independent Non-executive Director of the Company since June 2009. He graduated from Taiwan Shih Hsin University and attended advanced study programmes at Stanford University in 1990 and 1993.

**Mr. Ji Weidong** is currently an Independent Non-executive Director of the Company. Mr. Ji was an associate professor and professor at the School of Law of Kobe University, Japan. Since 2008, he has been the dean and chair professor of Koguan Law School of Shanghai Jiao Tong University. In addition, he is currently an honorary professor at Kobe University, Japan. Mr. Ji has served as an Independent Non-executive Director of the Company since March 2010. Mr. Ji graduated from the Department of Law of Peking University. Mr. Ji completed his Master and Doctoral Degrees in Law at the Graduate School of Kyoto University, Japan and obtained his doctoral degree from Kyoto University, Japan. From September 1991 to July 1992, he was a visiting scholar at Stanford Law School.

**Mr. Shao Ruiqing** is currently an Independent Non-executive Director of the Company. Mr. Shao was deputy dean and dean of the School of Economics and Management of Shanghai Maritime University. He served as deputy dean at Shanghai Lixin University of Commerce since March 2004. Mr. Shao was also a professor in accounting and mentor to doctoral students. From June 2007 to August 2011, Mr. Shao served as an external supervisor of China Merchants Bank Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange). Mr. Shao served as an independent non-executive director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) from June 2008 to May 2012. Mr. Shao has served as an Independent Non-executive Director of the Company since June 2010. 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 of the PRC, as an expert in finance and accounting. Mr. Shao graduated from Shanghai Maritime University, Shanghai University of Finance and Economics and Tongji University with a Bachelor Degree in Economics, and Master 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. Li Ruoshan** is currently an Independent Non-executive Director of the Company. 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, and director of the Finance Department of Fudan University. 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 deputy director of the Members' Rights Protection Commission of the Chinese Institute of Certified Public Accountants, the vice president of the Shanghai Accounting Society and Shanghai Auditing Society, a member of the Consultant Professional Committee for Listed Companies of the Shanghai Stock Exchange, a consultant professional of the Committee for Accounting Standards of the Ministry of Finance and an independent director of each of 興業銀行股份有限公司 (Industrial Bank Co., Ltd.) (a company listed on the Shanghai Stock Exchange) and 西安陝鼓動力股份有限公司 (Xi'an Shaangu Power Co. Ltd.) (a company listed on the Shanghai Stock Exchange). Mr. Li served as an independent director of each of 中國太平洋保險（集團）股份有限公司 (China Pacific Insurance (Group) Co., Ltd.) (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and 廣博集團股份有限公司 (Guangbo Group Co. Ltd.) (a company listed on the Shenzhen Stock Exchange). Mr. Li has served as an Independent Non-executive Director of the Company since June 2013. In 2010, 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 a Doctoral Degree in Auditing. He further studied abroad in Belgium and the Massachusetts Institute of Technology in the United States.

**Mr. Ma Weihua** is currently an Independent Non-executive Director of the Company. Mr. Ma was an executive director, president and chief executive officer of 招商銀行股份有限公司 (China Merchants Bank Co., Ltd.) (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange), the chairman of 招商信諾人壽保險有限公司 (CIGNA & CMC Life Insurance Co., Ltd.) and the chairman of 招商基金管理有限公司 (China Merchants Fund Management Co., Ltd.). Mr. Ma is currently the chairman of Wing Lung Bank Limited in Hong Kong, a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference, the vice chairman of China Chamber of International Commerce, the executive deputy chairman of China Enterprise Directors Association, a member of the Standing Council of China Society for Finance and Banking, a director of Shenzhen Soft Science Development Foundation, an independent director of each of 中國石油化工股份有限公司 (China Petroleum & Chemical Corporation) (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange), 盈利時控股有限公司 (Winox Holdings Limited) (a company listed on the Hong Kong Stock Exchange), and 華潤置地有限公司 (China Resources Land Limited) (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange). Mr. Ma has served as an Independent Non-executive Director of the Company since October 2013. 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. Yu Faming** is currently the Chairman of the Supervisory Committee of the Company, and a party member and the head of party disciplinary inspection group of CEA Holding. Mr. Yu served as deputy head of the Survey and Research Department of the Policy Research Office of the Ministry of Labour and Human Resources of the PRC, head of the Integration Division of the Department of Policy and Regulation of the Ministry of Labour of the PRC, deputy head of the Labour Science Research Institute of the Ministry of Labour of the PRC, deputy head and head of the Labour Science Research Institute of the Ministry of Labour Protection of the PRC and head of the Training and Employment Department of the Ministry of Labour Protection of the PRC. From June 2008 to May 2011, he served as head of the Employment Department of the Ministry of Human Resources and Social Security of the PRC. Since May 2011, he has been party member and head of party disciplinary inspection group of CEA Holding. Since June 2011, he has served as the Chairman of the Supervisory Committee of the Company. Mr. Yu graduated from Shandong University majoring in philosophy. He holds the title of associate research fellow.

**Mr. Xi Sheng** is currently a Supervisor of the Company 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 (中國審計事務所). 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 and a Supervisor of the Company since June 2012. Mr. Xi is also the council member of China Institute of Internal Audit, the vice chairman of Shanghai Institute of Internal Auditors, a member of International Institute of Internal Auditors and a committee member of international relations committee of the institute. Mr. Xi graduated from Jiangxi University of Finance and Economics (江西財經大學) 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 Company 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 and the chief officer of the auditing office of the Company, chief officer of the auditing office, head of the audit department, chief officer of disciplinary committee office, head of supervision department and deputy head of party disciplinary inspection group of CEA Holding. He was the secretary of the disciplinary committee of the Company from November 2006 to November 2009 and the secretary of the disciplinary committee and chairman of the labour union of the Company from November 2009 to November 2011. He served as the deputy secretary of the party committee and secretary of the disciplinary committee of the Company from November 2011 to August 2013. He has served as the chairman of the labour union of CEA Holding since August 2013. Mr. Ba graduated from Shanghai Television University.

**Mr. Feng Jinxiong** is currently a Supervisor and General Manager of the Audit Department of the Company and a deputy general manager 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 Company, head of the Finance Department and deputy chief accountant of CEA Holding, Manager of the Human Resources Department of the Company, vice president of CES Finance, and Deputy General Manager of the Shanghai Security Department of the Company. He also served as president of the China Eastern Airlines Wuhan Co., Ltd. from 2007 to 2009. Since February 2009, he has been General Manager of the Audit Department of the Company. He has been a Supervisor of the Company since March 2009. 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. Yan Taisheng** is currently a Supervisor and the vice chairman of the labour union of the Company. Mr. Yan joined the civil aviation industry in 1973, and served as chief of the board secretariat of the general office of the Company, general manager of 上海民航東大實業公司 (Shanghai Civil Aviation Dong Da Industry Company) and deputy head and head of the general office of the labour union of the Company. He has been the vice chairman of the labour union of the Company since 2005. He served as a Supervisor since March 2009. Mr. Yan graduated from East China Normal University.

**Mr. Shu Mingjiang** was a Vice President of the Company during the Reporting Period. Mr. Shu joined the civil aviation industry in 1989. He served as vice president of general affairs of 上海東方飛行培訓有限公司 (Shanghai Eastern Flight Training Co., Ltd.), a subsidiary of the Company, Deputy Head of the Safety Monitoring Division, Vice Manager and subsequently Manager of the Safety Monitoring Department of the Company, Deputy General Manager of the Shanghai Flight Division of the Company and Vice President of the Yunnan Branch of the Company. From November 2006 to December 2009, he was the Chief Pilot and General Manager of the Operating Control Division of the Company. From December 2009 to November 2011, Mr. Shu was President of the Beijing Branch of the Company. He was Vice President of the Company from December 2011 to March 2014. Mr. Shu was appointed as the chief safety controller of CEA Holding from February 2014. Mr. Shu graduated from the Flight College of Civil Aviation Flight University of China, majoring in aircraft driving, and obtained a Master in Flight Safety Management jointly held by Civil Aviation University of China, ENAC, France and ENSICA, France, and an Executive Master of Business Administration (EMBA) degree from School of Management of Fudan University.

**Mr. Wu Yongliang** is currently a Vice President and Chief Financial Officer of the Company. Mr. Wu joined the civil aviation industry in 1984 and served as Deputy Head and subsequently Head of the Finance Department of the Company, Head of Planning and Finance Department of the Company 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 Company. He has been a Vice President of the Company 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 (MBA). Mr. Wu was awarded the postgraduate qualification and is a certified accountant.

**Mr. Tian Liuwen** is currently a Vice President of the Company. 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 Company. From June 2002 to January 2008, he was the Vice President and subsequently President of the Hebei Branch of the Company. From April 2005 to January 2008, he was President of the Beijing Base of the Company. He served as general manager of China Eastern Airlines Jiangsu Co., Ltd, a subsidiary of the Company, since January 2008. From December 2011 to June 2013, he served as the general manager of Shanghai Airlines; and from January 2012 to December 2013, he was a director of Shanghai Airlines. Since December 2011, he has been Vice President of the Company and president of Shanghai Airlines. He obtained an EMBA degree from Nanjing University and is qualified as senior economist.

**Mr. Feng Liang** is currently a Vice President, the Chief Engineer and the Chief Security Officer of the Company. Mr. Feng joined the civil aviation industry in 1986 and worked in aircraft maintenance base routes department of the Company. 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 東航工程技術公司 (China Eastern Air Engineering & Technique) after it was established in September 2006. He has served as the Chief Engineer of the Company since August 2010, the Chief Security Officer of the Company since December 2012 and the Vice President of the Company since August 2013. Mr. Feng was graduated from Civil Aviation University of China, majored in aircraft electrical equipment maintenance and obtained an MBA degree from Shanghai Jiaotong University. He is also a senior engineer.

**Mr. Sun Youwen** is currently the Vice President of the Company, the chief pilot and the general manager of the shanghai flight division of the Company. Mr. Sun joined the civil aviation industry in 1980, and served as a squadron leader and the leader of the shanghai flight division of the Company. He served as the vice president of China Eastern Airlines Jiangsu Corporation Limited from April 2007 to November 2009 and the general manager of the shanghai flight division of the Company from December 2009 to April 2012. He has been appointed as the chief pilot of the Company and the general manager of the shanghai flight division of the Company since April 2012 and has served as the Vice President of the Company since March 2014. Mr. Sun graduated from the Flight College of Civil Aviation Flight University of China (中國民用航空飛行學院), majored in aircraft driving and obtained an Executive Master of Business Administration (EMBA) degree from the Institute of Management of Fudan University.

**Mr. Wang Jian** is currently the Board Secretary, the Head of the Board secretariat of the Company, Joint Company Secretary and Authorised Representative of the Company. Mr. Wang joined the Company in 1995 and served as Deputy Head of the Company's office and Deputy General Manager of the Shanghai Business Office of the Company. From September 2006 to May 2009, he was the deputy general manager in the Shanghai Base of China Southern Airlines Company Limited. Since May 2009, he has served as the Head of the Board secretariat of the Company. He was a representative of the Company's Securities affairs from May 2009 to April 2012. He was appointed as the Board Secretary, Joint Company Secretary and Authorised Representative of the Company in April 2012. Mr. Wang graduated from Shanghai Jiao Tong University and has an MBA postgraduate degree from East China University of Science and Technology and an EMBA degree from Tsinghua University as well as a qualification certificate for board secretaries of listed companies issued by the Shanghai Stock Exchange.

**Mr. Ngai Wai Fung** is currently a Joint Company Secretary of the Company. Mr. Ngai is a fellow and vice president of the Hong Kong Institute of Chartered Secretaries, and a fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Ngai is currently a director and chief executive officer of SW Corporate Services Group Limited. Mr. Ngai has become an adjunct professor of the Faculty of Law of Hong Kong Shue Yan University. He was appointed as a non-official member of the Working Group on Professional Services of the Economic Development Commission by the chief executive of the Hong Kong Special Administrative Region and also a committee member of Qualification and Examination Board by the Hong Kong Institute of Certified Public Accounts. He used to serve as joint company secretary in several companies and has rich experience in being a company secretary, as well as in enterprise management, legal matters, finance and corporate governance. He is also a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants in the United Kingdom. In April 2012, Mr. Ngai was appointed as the Joint Company Secretary of the Company. Mr. Ngai has a Doctorate in Finance from the Shanghai University of Finance and Economics, a Master in Corporate Finance from the Hong Kong Polytechnic University, an MBA from Andrews University in the United States and a Bachelor's degree (Honours) in Law from the University of Wolverhampton in the United Kingdom.

**Mr. Luo Zhuping** was a Director of the Company during the Reporting Period. Mr. Luo joined CEA in 1988. He was Deputy Chief and then Chief of the Enterprise Management Department and Deputy Head of the Share System Office of China Eastern Airlines. He served as the Board Secretary of the Company for 15 years from December 1996 to April 2012. He was also the Head of the Board Secretariat of the Company from 1997 to 2008. He was a Director of the Company from June 2004 to June 2013. Mr. Luo has been responsible for domestic and overseas exchange listing and capital management of the Company since 1993. He has gained rich experience in certain value-added measures of an enterprise, such as enterprise reform, stock issuance, corporate governance, merger and acquisition and reorganization. Mr. Luo graduated from Anhui University majoring in Philosophy and Law. He also holds a Master in Global Economics from Eastern China Normal University. He participated in the training programme for senior managers of large scale enterprises organised in the USA by the State Economic and Trade Commission and Morgan Stanley.

**Mr. Wu Xiaogen** was an Independent Non-executive Director of the Company during the Reporting Period. Mr. Wu previously served as assistant to the general manager and deputy general manager of the securities department of 中國金穀國際信託投資有限責任公司 (China Jingu International Trust Investment Company Limited), deputy general manager of the securities management department and general manager of the institutional management department of 中國科技國際信託投資公司 (China Technology International Trust Investment Company), and head of the audit teaching and research unit and deputy dean of the School of Accountancy of Central University of Finance and Economics. He was chief accountant of China First Heavy Industries from November 2004 to June 2010. He has been a professional external director for central enterprises since June 2010 and holds the title of researcher. Mr. Wu served as an independent non-executive director of 中國石油化工股份有限公司 (China Petroleum & Chemical Corporation) (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from May 2010 to May 2012. Mr. Wu served as an Independent Non-executive Director of the Company from March 2010 to June 2013. Mr. Wu is also a director and a member of the Ethics Committee of the Chinese Institute of Certified Public Accountants, an external director of China National Machinery Industry Corporation and an external director of China Three Gorges Corporation. Mr. Wu graduated from the Department of Economics and Management of the Central University of Finance and Economics and also obtained a Doctoral Degree in Economics.

**Mr. Liu Jiashun** was a Supervisor of the Company during the Reporting Period. Mr. Liu was party secretary, deputy president and secretary of the disciplinary committee of China Aviation Fuel Hainan Company, as well as chairman of the board and president of Hainan Nanyang Air Transport Co., Ltd. He was also the chief director in charge of fuel supply engineering at Haikou's Meilan Airport and served as a director of Meilan Airport Co., Ltd. and the vice chairman of the board and president of 美亞實業有限公司 (Meiya Company). From 1999 to 2007 he was deputy party secretary, and subsequently the secretary of the disciplinary committee of China Aviation Fuel East China Company and he served as the general manager of 上海浦航石油有限公司 (Shanghai Pudong Airport Fuel Co., Ltd) from 2006 to March 2009. Since October 2009, Mr. Liu has served as the party secretary of 中國航空油料華東公司 (China Aviation Fuel Huadong Company). He was a Supervisor of the Company from 2000 to June 2013. Mr. Liu received post-graduate education and is qualified as a senior political work instructor.

Each of the independent non-executive Directors has issued a confirmation in respect of the factors set out in the Listing Rules concerning his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

## Changes in the Members of the Board and Management Personnel

The 2012 annual general meeting was held by the Company on 26 June 2013, during which the seventh session of the Board and the seventh session of the supervisory committee of the Company were elected. On the same day, the first ordinary meeting of the seventh session of the Board and the first meeting of the seventh session of the supervisory committee of the Company were also convened, during which the Chairman, Vice Chairman, President, Vice President, Chief Financial Officer, Board Secretary of the seventh session of the Board and the chairman for the seventh session of the supervisory committee of the Company were elected.

The second ordinary meeting of the seventh session of the Board was held by the Company on 27 August 2013, during which the resolution on appointment of Mr. Feng Liang as a Vice President of the Company was considered and approved. On 29 October 2013, the resolution on election of Mr. Ma Weihua as an independent non-executive Director of the seventh session of the Board was considered and approved at the first extraordinary general meeting of the Company in 2013. On 24 March 2014, the sixth ordinary meeting of the seventh session of the Board considered and passed the resolution regarding the change in Vice President of the Company and appointed Mr. Sun Youwen as a Vice President of the Company. Mr. Shu Mingjiang ceased to be a Vice President of the Company due to changes of duties.

### Cessation

| Name | Date of Cessation | Position |
|---|---|---|
| Luo Zhuping | 26 June 2013 | Director |
| Wu Xiaogen | 26 June 2013 | Independent Non-executive Director |
| Liu Jiashun | 26 June 2013 | Supervisor |
| Shu Mingjiang | 24 March 2014 | Vice President |

### Appointment

| Name | Date of Appointment | Approval Organisation | Position |
|---|---|---|---|
| Liu Shaoyong | 26 June 2013 | 2012 annual general meeting<br>1st ordinary meeting of the seventh session of the Board | Chairman |
| Ma Xulun | 26 June 2013 | 2012 annual general meeting<br>1st ordinary meeting of the seventh session of the Board | Vice Chairman, President |
| Xu Zhao | 26 June 2013 | 2012 annual general meeting | Director |
| Gu Jiadan | 26 June 2013 | 2012 annual general meeting | Director |
| Li Yangmin | 26 June 2013 | 2012 annual general meeting<br>1st ordinary meeting of the seventh session of the Board | Director, Vice President |
| Tang Bing | 26 June 2013 | 2012 annual general meeting<br>1st ordinary meeting of the seventh session of the Board | Director, Vice President |
| Sandy Ke-Yaw Liu | 26 June 2013 | 2012 annual general meeting | Independent Non-executive Director |
| Ji Weidong | 26 June 2013 | 2012 annual general meeting | Independent Non-executive Director |
| Shao Ruiqing | 26 June 2013 | 2012 annual general meeting | Independent Non-executive Director |
| Li Ruoshan | 26 June 2013 | 2012 annual general meeting | Independent Non-executive Director |
| Ma Weihua | 29 October 2013 | 1st extraordinary general meeting 2013 | Independent Non-executive Director |
| Yu Faming | 26 June 2013 | 2012 annual general meeting<br>1st meeting of the seventh session of the supervisory committee of the Company | Chairman of the supervisory committee of the Company |
| Xi Sheng | 26 June 2013 | 2012 annual general meeting | Supervisor |
| Ba Shengji | 26 June 2013 | 2012 annual general meeting | Supervisor |
| Yan Taisheng | 26 June 2013 | 3rd group meeting in 2013 of the fifth session of the employee's representatives conference | Supervisor |
| Feng Jinxiong | 26 June 2013 | 3rd group meeting in 2013 of the fifth session of the employee's representatives conference | Supervisor |
| Wu Yongliang | 26 June 2013 | 1st ordinary meeting of the seventh session of the Board | Vice President, Chief Financial Officer |
| Tian Liuwen | 26 June 2013 | 1st ordinary meeting of the seventh session of the Board | Vice President |
| Feng Liang | 27 August 2013 | 2nd ordinary meeting of the seventh session of the Board | Vice President |
| Sun Youwen | 24 March 2014 | 6th ordinary meeting of the seventh session of the Board | Vice President |
| Wang Jian | 26 June 2013 | 1st ordinary meeting of the seventh session of the Board | Board Secretary, Joint Company Secretary, Authorised Representative |
| Ngai Wai Fung | 26 June 2013 | 1st ordinary meeting of the seventh session of the Board | Joint Company Secretary |

## Change of particulars of directors or supervisors under Rule 13.51B(1) of the Listing Rules

Mr. Tang Bing, a director of the Company, ceased to act as the chairman of Shanghai Airlines, a subsidiary of the Company, with effect from January 2014 and was appointed as an executive director of Shanghai Airlines with effect from January 2014.

Mr. Li Ruoshan, an independent non-executive director of the Company, ceased to act as an independent non-executive director of 中國太平洋保險（集團）股份有限公司 (China Pacific Insurance (Group) Co., Ltd.) (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) with effect from June 2013, ceased to act as an independent non-executive director of 廣博集團股份有限公司 (Guangbo Group Stock Co., Ltd.) (a company listed on the Shenzhen Stock Exchange) with effect from February 2014 and was appointed as an independent non-executive director of 西安陝鼓動力股份有限公司 (Xi'an Shaangu Power Co. Ltd.) (a company listed on the Shanghai Stock Exchange) with effect from December 2013.

Mr. Ma Weihua, an independent non-executive director of the Company, was appointed as an independent non-executive director of 華潤置地有限公司 (China Resources Land Limited) (a company listed on the Hong Kong Stock Exchange) with effect from July 2013.

## Shareholdings of Directors, Chief Executive, Supervisors and Senior Management

Save as disclosed above, as at 31 December 2013, none of the Directors, chief executive, Supervisors or members of senior management of the Company and their respective associates had any other interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO and as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO (including any interest or short position which any of such Directors, chief executive, Supervisors or members of senior management of the Company and their respective associates were taken or deemed to have under such provisions of the SFO), or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code (which shall be deemed to apply to the Supervisors to the same extent as it applied to the Directors).

In 2013 and as at 31 December 2013, none of the Directors, chief executive, Supervisors, members of senior management of the Company and/or any of their spouses or children under the age of eighteen were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for equity securities or debt securities of the Company.

As at the date of this report, Mr. Liu Shaoyong (the Chairman of the Company), Mr. Xu Zhao and Mr. Gu Jiadan (Directors), Mr. Yu Faming (the chairman of the Supervisory Committee of the Company), Mr. Xi Sheng and Mr. Ba Shengji (Supervisors) are employees of CEA Holding, which is a company having an interest in the Company's shares required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## Service Contracts of Directors and Supervisors

None of the Directors or Supervisors has entered into any service contract with the Company, which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

## Interests of Directors and Supervisors in Contracts

None of the Directors or Supervisors had a material interest, directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party to during the Reporting Period (the term 'contract of significance' having the meaning ascribed thereto in paragraph 15 of Appendix 16 to the Listing Rules).

## Remuneration

### Directors and supervisors

Details of the remuneration of Directors and Supervisors are set out in note 9 to the financial statements prepared in accordance with IFRS.

### H shares appreciation rights scheme

Details of the grant of the H shares appreciation rights of the Company are set out in the section headed "Report of Directors—H Shares Appreciation Rights" of this report.

## Major Suppliers and Customers

In 2013, purchases by the Company from the largest and five largest suppliers accounted for 16.45% and 30.08%, respectively, of the total annual purchases of the Company. Total income from sales to the Company's five largest customers amounted to approximately RMB6,655 million, accounting for 7.56% of the Company's total revenue.

None of the Directors, Supervisors or any of their respective associates nor any Shareholders who, to the knowledge of the Directors, hold 5% or more of the Company's share capital has any interest in any of the above mentioned suppliers and customers.

## Medical Insurance

The majority of the Group's PRC employees participate in the medical insurance schemes organised by the municipal governments, under which the Group and its employees are required to contribute to the schemes approximately 12% and 2%, respectively, of the employee's basic salaries. For those employees who participate in these schemes, the Group has no other obligation for the payment of medical expense beyond such contributions. For the year ended 31 December 2013, the Group's medical insurance contributions charged to the income statement amounted to RMB478 million (2012: RMB391 million).

## Employees' Retirement Scheme

Details of the Company's employee retirement scheme and post-retirement benefits are set out in note 38 to the financial statements prepared in accordance with IFRS.

## Staff Housing Benefits

Details of the Group's staff housing benefits are set out in note 39 to the financial statements prepared in accordance with IFRS.

## Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2013 are set out in note 34 to the financial statements prepared in accordance with IFRS.

## Interest Capitalized

Interest capitalized by the Group as calculated in accordance with IFRS for the year ended 31 December 2013 was RMB391 million.

## Property, Plant And Equipment

Movements in property, plant and equipment of the Company and the Group during the year are set out in note 19 to the financial statements prepared in accordance with IFRS.

## Reserves

Details of movements in reserves of the Company and the Group for the year ended 31 December 2013 and profit appropriation by the Company are set out in note 43 to the financial statements prepared in accordance with IFRS.

## Donations

During the year, the Group made donations for charitable purposes amounting to approximately RMB0.1097 million.

## Material Litigation

The family members of the 32 victims in the Baotou aircraft accident on 21 November 2004, who sued the Company in the USA and China (the aircraft was then owned and operated by China Eastern Air Yunnan Company), have reached a settlement with the Company and applied to the Beijing Second Intermediate People's Court to withdraw their actions. On 31 May 2013, the Beijing Second Intermediate People's Court accepted the withdrawal. The California Court in the USA ruled to terminate the proceedings of case in the USA on 24 October 2013. Since then, all the local and overseas proceedings with respect to this case have been closed. Management of the Company considers that the outcome of this litigation will not have a material adverse effect on the financial condition and operating performance of the Company.

As at 31 December 2013, the Group was not included in any litigation, arbitration or claim of material importance.

## Significant Events

1. On 23 March 2012, the Company entered into a binding memorandum of understanding with Jetstar Airways Pty Limited (a wholly-owned subsidiary of Qantas), for the establishment of a Hong Kong-based low-cost airline. On 24 August 2012, Eastern Air Overseas, a wholly-owned subsidiary of the Company, entered into a shareholders' agreement with Jetstar International, a wholly-owned subsidiary of Qantas, pursuant to which Eastern Air Overseas and Jetstar International agreed to establish a Hong Kong-based, Jetstar-branded low-cost airline. On 5 June 2013, Eastern Air Overseas, Jetstar International, Shun Tak Investor, a wholly owned Hong Kong-based subsidiary of Shun Tak Holdings and Jetstar Hong Kong, entered into a restated and amended shareholders' agreement, pursuant to which Shun Tak Investor will become a new strategic shareholder of Jetstar Hong Kong, subject to the completion of necessary filings with the relevant authorities in the PRC, and will hold one-third of the total issued share capital of Jetstar Hong Kong. For details, please refer to the announcements of the Company dated 23 March 2012, 24 August 2012 and 5 June 2013 issued in Hong Kong.

2. The first tranche of the 2012 corporate bonds issued by the Company are 10-year fixed interest rate bonds in the amount of RMB4.8 billion, with an issue price of RMB100 each and a coupon interest rate of 5.05%. The issuance was completed on 20 March 2013 and the bonds were listed on the Shanghai Stock Exchange on 22 April 2013. On 28 June 2013, Dagong International Credit Rating Co., Ltd., a credit rating agency, evaluated this tranche of corporate bonds and issued a credit rating report. After deducting the issuance expense, the proceeds of this bonds issue will be used for purchase of aircraft. For details, please refer to the announcements of the Company dated 11 May 2012, 28 June 2012, 20 March 2013, 18 April 2013 and 28 June 2013 issued in Hong Kong.

3. The non-public issuance of 698,865,000 new A shares at the subscription price of RMB3.28 per share by the Company to CEA Holding (the controlling shareholder of the Company) and CES Finance was completed on 17 April 2013 (the "**A Share Subscription**"). The total consideration for the A Share Subscription was RMB2,292,277,200. The non-public issuance of 698,865,000 new H shares at the subscription price of HK$2.32 per share by the Company to CES Global was completed on 21 June 2013 (the "**H Share Subscription**"). The total consideration for the H Share Subscription was HK$1,621,366,800. The purposes of the A Share Subscription and the H Share Subscription are to improve the financial position of the Company and in the long term, enhance the Company's competitiveness and help to improve its operational position. For details, please refer to the announcements of the Company dated 11 September 2012, 9 November 2012, 4 February 2013, 25 February 2013, 10 April 2013, 17 April 2013 and 21 June 2013 and the circular of the Company dated 24 September 2012 issued in Hong Kong.

4. On 29 May 2013, in order to satisfy the Company's working capital requirement, Eastern Air Overseas, a wholly-owned subsidiary of the Company, issued RMB2.2 billion guaranteed bonds with an interest rate of 3.875% due 2016 to professional investors in Hong Kong. The issue price is 100% of the principal amount of the bonds. Such bonds are listed on the Hong Kong Stock Exchange. The Company has provided a guarantee in connection with this bond issue. For details, please refer to the announcements of the Company dated 24 May 2013, 30 May 2013 and 5 June 2013 issued in Hong Kong.

5. On 7 June 2013, the Company has completed the issuance of 2013 first tranche of super-short-term commercial paper in the issuance amount of RMB4 billion, with a maturity of 270 days. The nominal value of the commercial papers was RMB100 per unit and the interest rate was 3.95%. The issue price is 100% of the principal amount of the bonds. The proceeds from this issuance will be used principally to replenish corporate working capital of the Company. For details, please refer to the announcement of the Company dated 7 June 2013 issued in Hong Kong.

6. On 10 June 2013, the Company redeemed the 2012 first tranche of RMB4 billion 4.1% super-short-term commercial paper, which was issued on 13 September 2012. The commercial papers had a maturity of 270 days at a nominal value of RMB100 per unit. For details, please refer to the announcements of the Company dated 13 September 2012 and 13 June 2013 issued in Hong Kong.

7. On 26 June 2013, the 2012 annual general meeting of the Company considered and approved that (i) Ernst & Young Hua Ming LLP and Ernst & Young be appointed as the Company's domestic and international auditors respectively, for the year 2013; and (ii) Ernst & Young Hua Ming LLP be appointed as the Company's auditors for internal control for the year 2013, both of which came into effect at the conclusion of the 2012 annual general meeting. For details, please refer to the announcements of the Company dated 26 March 2013 and 26 June 2013 issued in Hong Kong.

8. On 26 June 2013, the 2012 annual general meeting of the Company considered and approved the proposal to expand the business scope of the Company and the amendments to the Articles of Association. On the same date, the Chairman of the Company made corresponding amendments to the Articles of Association pursuant to the authority granted at the 2012 first extraordinary general meeting, which was based on the results of A Share Subscription and H Share Subscription. All amendments became effective on 26 June 2013. For details, please refer to the announcements of the Company dated 26 April 2013 and 26 June 2013 issued in Hong Kong.

9. On 28 February 2014, the Company (as the purchaser) entered into a purchase agreement with Airbus SAS (as the seller) in Shanghai, China regarding the purchase of seventy A320NEO aircraft. The aforesaid aircraft are expected to be delivered to the Company in stages from 2018 to 2020. On the same date, the Company (as the seller) entered into a disposal agreement with Airbus SAS (as the purchaser) regarding the disposal of seven Airbus A300-600 aircraft and certain spare parts and spare engines. For details, please refer to the announcement of the Company dated 28 February 2014 issued in Hong Kong.

10. On 13 March 2014, in order to satisfy the Company's working capital requirement, Eastern Air Overseas, a wholly-owned subsidiary of the Company, issued RMB2.5 billion guaranteed bonds with an interest rate of 4.8% due March 2017 to professional investors in Hong Kong. Such bonds are listed on the Hong Kong Stock Exchange. The Company has provided a guarantee in connection with this bond issue. For details, please refer to the announcements of the Company dated 7 March 2014 and 13 March 2014 issued in Hong Kong.

11. On 26 March 2014, according to the relevant requirements of the CSRC and the Shanghai Stock Exchange, the Board considered and approved the proposed amendments to the Articles of Association in connection with the priority of cash dividends to share dividends in profit distributions and intervals for cash dividend distributions. Such amendments will be submitted to the 2013 annual general meeting of the Company for approval. For details, please refer to the announcement of the Company dated 26 March 2014.

12. The authorised representative in Hong Kong (for the purpose of section 776(4) of the Companies Ordinance, Chapter 622 of the Laws of Hong Kong) of the Company has been changed from Mr. Ge Haiwang to Mr. Liu Mingyu, with effect from 26 March 2014. For details, please refer to the announcement of the Company dated 26 March 2014.

## Connected Transactions

1. On 10 January 2013, Shanghai Tours entered into an equity transfer agreement with Eastern Tourism, pursuant to which Shanghai Tours agreed to acquire the entire equity interests of Eastern Travel from Eastern Tourism in consideration of RMB11,876,200 in total (the "**Eastern Travel Acquisition**").

   Eastern Tourism is a wholly-owned subsidiary of CEA Holding, which in turn is a controlling shareholder of the Company. Eastern Tourism is thus a connected person of the Company under the Listing Rules.

   Therefore, the Eastern Travel Acquisition constitutes a connected transaction of the Company. The main purpose of the Eastern Travel Acquisition is to reorganise and integrate the tourism business of the Group. For details, please refer to the announcement of the Company issued in Hong Kong dated 10 January 2013.

2. On 27 September 2013, in order to secure a professional, stable and reliable operation for the Company's media and advertising resources, the Company entered into an agreement with CES Media, pursuant to which the Company and certain of its subsidiaries agreed to transfer the exclusive rights to use certain media and advertising resources of the Company to CES Media and certain of its subsidiaries at a consideration of RMB237 million for a period of 15 years (from 1 January 2014 to 31 December 2028) under the terms and conditions in the agreement. CES Media is a subsidiary of and thus an associate of CEA Holding, which in turn is a controlling shareholder of the Company. As such, CES Media is a connected person of the Company and the transaction constitutes a connected transaction of the Company under the Listing Rules. For details, please refer to the announcement of the Company dated 27 September 2013 issued in Hong Kong.

3. On 24 December 2013, the Company and CEA Holding, both being the shareholders of CES Media, agreed the capital injection of RMB80 million to CES Media on a pro-rata basis in cash. Out of such RMB80 million, the Company will contribute a pro-rata amount of RMB36 million in cash and CEA Holding will contribute the remaining pro-rata amount of RMB44 million in cash. CES Media is a subsidiary of and thus an associate of CEA Holding, which in turn is a controlling shareholder of the Company. As such, CES Media is a connected person of the Company. The contribution by the Company constitutes a connected transaction of the Company under the Listing Rules. This capital injection has been completed. The capital injection will enable CES Media to enhance its market competitiveness and promote sustainable development in the future, thereby enhancing the Company's ability to obtain stable investment income. For details, please refer to the announcement of the Company dated 24 December 2013 issued in Hong Kong.

## Continuing Connected Transactions

In order to better manage the existing continuing connected transactions and to regulate the continuing business relationships between (i) the Group and (ii) CEA Holding and its subsidiaries, and in compliance with the applicable requirements under Chapter 14A of the Listing Rules, the Company entered into the following agreements or renewed agreements relating to various continuing connected transactions. Those agreements are effective for a term of 3 years from 1 January 2014 to 31 December 2016.

| | Agreements | Counterparties and connected person relationship |
|---|---|---|
| 1. | Property Leasing Renewal Agreement | CEA Holding. |
| 2. | Financial Services Renewal Agreement | Eastern Air Finance Company, which is directly interested as to approximately 53.75% by, and is thus an associate of, CEA Holding.<br><br>CES Finance which is a wholly-owned subsidiary of CEA Holding. |
| 3. | Import and Export Agency Renewal Agreement | Eastern Aviation Import & Export Company, which is directly interested as to 55% by, and is thus an associate of, CEA Holding. |
| 4. | Catering Services Renewal Agreement | Eastern Air Catering Company, which is directly interested as to 55% by, and is thus an associate of, CEA Holding. |
| 5. | Sales Agency Services Renewal Agreement | Shanghai Dongmei, which is indirectly interested as to 72.84% by, and is thus an associate of, CEA Holding. |
| 6. | Maintenance and Repair Services Renewal Agreement | CEA Development, which is directly interested as to 95% by, and is thus an associate of, CEA Holding. |
| 7. | Advertising Services Renewal Agreement | CES Media, which is directly interested as to 55% by, and is thus an associate of, CEA Holding. |
| 8. | Property Management Services Agreement | Eastern Investment, which is a wholly-owned subsidiary of CEA Holding. |
| 9. | Hotel Accommodation Services Agreement | Eastern Tourism, which is a wholly-owned subsidiary of CEA Holding. |

Details of the relevant continuing connected transactions are set out as follows:

1. **Property Leasing Renewal Agreement**

On 15 October 2010, the Company and CEA Holding entered into the existing property leasing agreement (the "**Existing Property Leasing Agreement**") which expired on 31 December 2013. On 30 August 2013, the Company entered into an agreement relating to the renewal of the Existing Property Leasing Agreement with CEA Holding on substantially the same terms (the "**Property Leasing Renewal Agreement**"). Pursuant to the Property Leasing Renewal Agreement, the Company will lease from CEA Holding and its subsidiaries the following properties, for use by the Group in its daily airlines and other business operations:

(a) a maximum of altogether 36 land properties owned by CEA Northwest covering an aggregate site area of approximately 713,632 square metres together with a total of 172 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 240,601 square metres;

(b) a maximum of altogether 3 land properties owned by 中國東方航空雲南公司 (China Eastern Air Yunnan Company), covering an aggregate site area of approximately 43,258 square metres together with a total of 24 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 77,401 square metres;

(c) building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 8,853 square metres located in Shijiazhuang;

(d) building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 63,552 square metres located in Taiyuan;

(e) a total of altogether 7 building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 13,195 square metres located in Shanghai;

(f) a total of altogether 33 guest rooms in Eastern Hotel owned by CEA Holding, occupying an aggregate floor area of approximately 1,500 square metres located in Shanghai; and

(g) other property facilities owned by CEA Holding as may be leased to the Company from time to time due to the urgent business needs of the Company.

In addition to and on the terms and conditions to be further agreed, the Company shall lease some of the properties legally owned or leased by the Group to the subsidiaries of CEA Holding as needed by the subsidiaries of CEA Holding.

2. **Financial Services Renewal Agreement**

On 15 October 2010, the Company and Eastern Air Finance Company entered into the existing financial services agreement (the "**Existing Financial Services Agreement**") which expired on 31 December 2013. On 30 August 2013, the Company entered into an agreement relating to the renewal of the Existing Financial Services Agreement with Eastern Air Finance Company and CES Finance, pursuant to which the Eastern Air Finance Company and its subsidiaries (each a "**Eastern Air Finance Entity**" and collectively the "**Eastern Air Finance Entities**") and CES Finance and its subsidiaries (each a "**CES Finance Entity**" and collectively the "**CES Finance Entities**") will from time to time provide the Group with a range of financial services including: (i) deposit services by the Eastern Air Finance Entities; (ii) loan and financing services by the Eastern Air Finance Entities; and (iii) other financial services such as: (a) the provision of trust loans, financial guarantees, credit references by the Eastern Air Finance Entities; and (b) broker services for future products (e.g. crude oil, foreign exchange and national debt) by the CES Finance Entities (the scope of "**other financial services**" is not limited and different services may be provided to the Group as and when they are needed).

On 16 January 2013, in order to establish a systematic capital prevention mechanism and further ensure safety of the Company's financial deposit in Eastern Air Finance Company, the Company entered into a supplemental agreement with Eastern Air Finance Company, to further regulate the balances of the Group's deposits and loans with the Eastern Air Finance Company and its subsidiaries on a pre-condition that the agreed maximum daily balance of each of the deposits and the loans under the financial services agreement dated 15 October 2010 remains unchanged. For details, please refer to the announcement of the Company dated 16 January 2013 issued in Hong Kong.

### 3. Import and Export Agency Renewal Agreement

On 15 October 2010, the Company and Eastern Aviation Import & Export Company entered into the existing import and export agency agreement (the "**Existing Import and Export Agency Agreement**") which expired on 31 December 2013. On 30 August 2013, the Company entered into an agreement relating to the renewal of the Existing Import and Export Agency Agreement with the Eastern Aviation Import & Export Company on substantially the same terms, pursuant to which the Eastern Aviation Import & Export Company and its subsidiaries will from time to time as its agent provide the Group with agency services for the import and export of goods, including aircraft and related raw materials, accessories, machinery and equipment, together with related insurance and financial services, required in the daily airlines operations and civil aviation business of the Group.

### 4. Catering Services Renewal Agreement

On 15 October 2010, the Company and Eastern Air Catering Company entered into the existing catering services agreement (the "**Existing Catering Services Agreement**") which expired on 31 December 2013. On 30 August 2013, the Company entered into an agreement relating to the renewal of the Existing Catering Services Agreement with the Eastern Air Catering Company on substantially the same terms, pursuant to which the Eastern Air Catering Company and its subsidiaries (each a "**Eastern Air Catering Entity**" and collectively the "**Eastern Air Catering Entities**") will from time to time provide the Group with in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in the daily airline operations and civil aviation business of the Group. The Eastern Air Catering Entities provide their services in accordance with the specifications and schedules as from time to time specified by the relevant member(s) of the Group to accommodate its operation needs.

### 5. Sales Agency Services Renewal Agreement

On 15 October 2010, the Company and Shanghai Dongmei entered into the existing sales agency services agreement (the "**Existing Sales Agency Services Agreement**") which expired on 31 December 2013. On 30 August 2013, the Company entered into an agreement relating to the renewal of the Existing Sales Agency Services Agreements with Shanghai Dongmei on substantially the same terms, pursuant to which the Shanghai Dongmei and its subsidiaries will from time to time provide the Group as its agents with services for sale of air tickets and with complementary services required in the daily airline operations and civil aviation business of the Group.

### 6. Maintenance and Repair Services Renewal Agreement

On 15 October 2010, the Company and CEA Development entered into the existing maintenance and repair services agreement (the "**Existing Maintenance and Repair Services Agreement**") which expired on 31 December 2013. On 30 August 2013, the Company entered into an agreement relating to the renewal of the Existing Maintenance and Repair Services Agreement with CEA Development on substantially the same terms, pursuant to which CEA Development and its subsidiaries will from time to time provide certain services to the Company, including: (a) maintenance and repair services to the Company's aeroplanes and automobiles that are used in ground services and daily operations; (b) comprehensive services in relation to maintenance, repair and overhaul of aircraft, aviation equipment and ancillaries; (c) various special vehicles and equipment for airline use, such as air stairs, freight cars, luggage trailers, garbage truck, aircraft portable water vehicle, aircraft sewage disposal vehicle, food cars, freight containers, freight board; (d) aircraft on-board supplies; and (e) warehousing management.

### 7. Advertising Services Renewal Agreement

On 15 October 2010, the Company and CES Media entered into the existing advertising services agreement (the "**Existing Advertising Services Agreement**") which expired on 31 December 2013. On 30 August 2013, the Company entered into an agreement relating to the renewal of the Existing Advertising Services Agreement with CES Media on substantially the same terms, pursuant to which CES Media and its subsidiaries will from time to time provide the Group with multi-media advertising services to promote its business and to organise promotional functions and campaigns to enhance its reputation in the civil aviation industry.

**8. Property Management Services Agreement**

On 30 August 2013, the Company entered into an agreement with Eastern Investment, pursuant to which Eastern Investment and its subsidiaries will from time to time provide the Group with property services such as property and facilities management, green maintenance, sanitation and hygiene management and order maintenance.

**9. Hotel Accommodation Services Agreement**

On 30 August 2013, the Company entered into an agreement with Eastern Tourism, pursuant to which Eastern Tourism and its subsidiaries will from time to time provide the Group's flight crews and customers with hotel accommodation and catering services in case of the implementation of night flights, night shift, irregular night flights or flight delays.

The estimated transaction caps for the continuing connected transactions, which were considered and approved by the Board and at the general meetings of the Company, and their actual amounts incurred up to 31 December 2013, are set out as follows:

| Category | Actual amount incurred up to 31 December 2013 RMB'000 | The approved 2013 estimated transaction caps RMB'000 |
|---|---|---|
| Property leasing | 59,141 | 114,900 |
| Financial services (balance of deposit) | 620,364 | 4,000,000 |
| Financial services (balance of loans) | 1,586,070 | 4,000,000 |
| Import and export agency services | 105,293 | 118,000 |
| Catering services | 919,051 | 1,160,000 |
| Sales agency services (agency fee) | 9,836 | 115,200 |
| Production and maintenance services | 142,569 | 148,780 |
| Advertising agency services | 10,099 | 56,000 |
| Media resources operation services | 14,908 | 60,000 |

For details regarding the existing continuing connected transactions, please refer to the Company's 2010 annual report.

The Company's independent non-executive Directors have reviewed such continuing connected transactions during the year 2013 and confirmed that:

(a) the transactions have been entered into by the Group in its ordinary and usual course of its business;

(b) the transactions have been entered into either (i) on normal commercial terms or (ii) (where there are not sufficient comparable transactions to judge whether they are on normal commercial terms) on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(c) the transactions have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

For the purpose of Rule 14A.38 of the Listing Rules, the auditors of the Company have carried out procedures on the above connected transactions disclosed herein for the year ended 31 December 2013 in accordance with the Hong Kong Standard on Assurance Engagements 3000 "**Assurance Engagement Other Than Audits or Reviews of Historical Financial Information**" and with reference to Practice Note 740 "**Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules**" issued by the Hong Kong Institute of Certified Public Accountants and reported that, in respect of the above connected transactions:

a. nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have not been approved by the Board.

b. for transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes us to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

c. nothing has come to our attention that causes us to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions as set out in this report, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement dated 15 October 2010 made by the Company in respect of each of the disclosed continuing connected transactions.

In respect of each related party transaction disclosed in note 47 to the financial statements prepared in accordance with IFRS, the Company confirms that it has complied with the relevant requirements under the Listing Rules (if applicable).

Save as disclosed above, the related party transactions set out in note 47 to the financial statements prepared in accordance with IFRS do not constitute connected transactions under the Listing Rules.

## Independent Non-Executive Directors' Opinion

Independent non-executive Directors have performed auditing work and issued an independent opinion on the external guarantees the Company has provided, as required by the relevant requirements of the CSRC. The Company has strictly observed the relevant laws and regulations as well as its Articles of Association while it has also imposed strict control on the external guarantees provided. As at 31 December 2013, none of the Company and its subsidiaries included in the consolidated financial statements has provided any guarantee to the Company's controlling shareholder and other related parties, other non-corporate bodies and individuals.

## Auditors

Ernst & Young was the Company's auditor for its Hong Kong financial report in 2013, and Ernst & Young Hua Ming LLP was the Company's auditor for domestic and USA financial reports in 2013.

On behalf of the Board

**Liu Shaoyong**
*Chairman*

Shanghai, the PRC
26 March 2014

## CORPORATE GOVERNANCE PRACTICES

The Company has established a formal and appropriate corporate governance structure. The Company has also placed emphasis on the corporate governance principle of having transparency, accountability and safeguarding the interests of all Shareholders.

The Board believes that sound corporate governance is essential to the development of the Company's operations. The Board regularly reviews our corporate governance practices to ensure that the Company operates in accordance with the laws, regulations and requirements of the listing jurisdictions, and that the Company continuously implements corporate governance of a high efficiency.

The Company's corporate governance practices include but are not limited to the following:

Articles of Association, rules of meeting of general meetings, rules of meeting of the Board, rules of meeting of the Supervisory Committee, working regulations of independent directors, management regulations of connected transactions and articles of association of the audit and risk management committee, articles of association of the planning and development committee, detailed working rules for the Nominations and Remuneration Committee, detailed working rules for the aviation safety and environment committee, working regulations of presidents, management regulations of investor relationship, detailed implementation rules for the management of investor relationship, detailed implementation rules for connected transactions, regulations on external guarantee and the interim administrative regulations concerning hedging businesses.

For the year ended 31 December 2013 and as at the date of publication of this annual report, the Board has reviewed the relevant provisions and corporate governance practices under the codes of corporate governance adopted by the Company, and took the view that the Company's corporate governance practices during the year ended 31 December 2013 met the requirements under the code provisions in the Code. In certain aspects, the code of corporate governance adopted by the Company is more stringent than the provisions set out in the Code. The following sets out the major aspects which are more stringent than the Code.

Major aspects which are more stringent than provisions set out in the Code:

– all members of the audit and risk management committee are independent non-executive Directors.

– 11 meetings of the Board were held during the financial year of 2013. The Board is responsible for the leading and control of the Company. The Directors are jointly responsible for the affairs of the Company by directing and supervising the affairs of the Company.

## DIRECTORS

As at 31 December 2013, the Board consists of eleven Directors, including six Executive Directors, namely Mr. Liu Shaoyong (Chairman), Mr. Ma Xulun, Mr. Xu Zhao, Mr. Gu Jiadan, Mr. Li Yangmin and Mr. Tang Bing, and five Independent non-executive Directors, namely Mr. Sandy Ke-Yaw Liu, Mr. Ji Weidong, Mr. Shao Ruiqing, Mr. Li Ruoshan and Mr. Ma Weihua. Names, personal particulars and conditions of appointment of the Directors are set out in page 34 of this report.

Independent non-executive Directors shall possess specialised knowledge and experience. They shall be able to play their roles of supervising and balancing to the fullest extent to protect the interests of Shareholders and the Company as a whole. The Board considers that they shall be able to exercise independent judgment effectively, which complies with guidelines on assessment of independence pursuant to Rule 3.13 of the Listing Rules. Pursuant to Rule 3.13 of the Listing Rules, the Company has received the annual confirmation letters from each of the independent non-executive Directors on their independence. All Directors (including independent non-executive Directors) are appointed for a term of 3 years. The formal appointment letters and the Articles of Association have set out the terms and conditions of their appointment. Other than working relationships, Directors, Supervisors and members of senior management of the Company do not have any financial, business or family connection with one another.

## POWERS OF THE BOARD

On a periodic basis, the Board reviews the relevant performance against proposed budgets and business objectives of each operating unit. It also exercises a number of powers retained by the Board, including the following:

– responsibility for convening general meetings and reporting to Shareholders on its work in such meeting;

– implementing resolutions passed in general meetings;

– deciding on the operating plan and investment proposals of the Company;

– formulating the annual preliminary and final budget proposals;

– formulating the Company's profit distribution proposal and the proposal to offset losses;

– formulating the Company's proposals to increase or reduce the registered capital and proposals to issue debt securities;

– drawing up proposals for the Company's merger, demerger and dissolution;

– deciding on the Company's internal management structure;

– employing or dismissing the Company's President and Board Secretary; appointment or dismissal of the Vice President and Chief Financial Officer of the Company on the nomination of the President, and the determination of their remuneration;

– formulating the basic management systems of the Company;

– formulating proposals to amend the Articles of Association;

– discharging any other powers and functions granted in general meeting.

The Board and the relevant specialized committees are also responsible for the completeness of financial information and are responsible for maintaining an effective internal control system and for risk management of the Group, as well as preparing the financial statements of the Company. Setting the business objectives and overseeing the daily operations of the Company are the responsibilities of the Chief Executive Officer. The Articles of Association specify the duties and authorities of the Board and the management. The Board periodically reviews the duties and functions of the Chief Executive Officer and the powers delegated to him to ensure that such arrangements are appropriate. In order to ensure the balance of powers and authorization, the roles of the Chairman and the Chief Executive Officer have been clearly defined. The Chairman of the Company is Mr. Liu Shaoyong, and the Chief Executive Officer is Mr. Ma Xulun, a Director and the President of the Company. There are also other senior officers who are responsible for the daily management of the Company within their scope of duties.

The Board continued to made strenuous efforts to establish and improve the Company's corporate governance policies. The Company drew up corporate governance policies such as Rules of Meeting of General Meetings, Rules of Meeting of the Board, Working Regulations of Presidents and Working Regulations of Independent Directors. In order to strengthen the work related to management of insiders' information of the Company, the Company established systems related to inside information management such as the Information Disclosure Management System, Inside Information Management and Confidentiality Measures, Management Regulations of External Information Reporting, Accountability System for Material Errors on Annual Report Disclosures and Registration and Management Regulation of Insiders; according to the needs of the Company to issue bonds, the Company formulate the interbank bond market information disclosure management mechanism; pursuant to the business development needs for the risk management of financial derivative businesses of the Company, the Board considered and amended the Risk Management Manual of Derivative Business (衍生業務風險管理手冊); in addition, in order to strengthen the Company's risk management of specific connected transaction, the Board considered and approved the "Risk Control Regulation of the Connected Transaction with Eastern Air Group Finance Co., Ltd. (與東航集團財務有限責任公司關聯交易的風險控制制度); meanwhile, with a view to enhance the basic management of the Company and strengthen system building, the Company streamlined the relevant constitutional documents and policies considered and approved by the Board and amended and supplemented certain policies which are incompatible with the Company's development requirement, based on the new changes of regulatory requirements and the actual conditions of the production and operation of the Company.

In order to implement the relevant requirements of CSRC and the Hong Kong Stock Exchange, and to further strengthen the confidentiality and compliant use of the Company's inside information by all relevant departments and staff of the Company, the Board considered and approved the Registration and Management Regulation of Insiders in January 2012 in accordance with the Regulations on Establishment of Registration and Management System of Insiders and inside Information by Listed Companies (關於上市公司建立內幕資訊知情人登記管理制度的規定) issued by CSRC. The registration and management regulation system formulates the definition of inside information, the scope of insiders, the confidential responsibility of insiders, the registration and management of insiders and the accountability in case of incompliance. As such, a system for the Company to further refine and strengthen the registration and management of insiders has been established. The Company strictly followed the system requirements and worked on the registration, management and reporting of insiders in disclosing the 2012 annual report, the 2013 first quarterly report, the 2013 interim report and the 2013 third quarterly report; moreover, in conducting material capital operation projects such as non-public issuance of shares and issuance of corporate bonds and the entering into material external investment agreements, the Company also requires relevant departments to register for insiders in time and remind insiders to keep inside information confidential so as to ensure smooth commencement and development of the projects.

## GENERAL MEETINGS

The procedures for Shareholders to convene an extraordinary general meeting and to send enquiries to the Board, and the procedure for proposing resolutions at general meetings are as follows:

According to the relevant requirements of the Articles of Association and rules of general meetings of the Company, Shareholders may convene a general meeting on their own, the major rules of which are as follows:

- Shareholder(s) either individually or jointly holding over 10% of the Company's shares may request the Board to convene an extraordinary general meeting. Such request shall be made to the Board in writing. The Board shall, in accordance with the requirement of laws, administrative regulations and the Articles of Association, make a response in writing on whether or not it agrees to convene an extraordinary general meeting within 10 days upon receipt of such request.

- If the Board refuses to convene the extraordinary general meeting, or fails to make a response within 10 days upon receipt of such request, Shareholder(s) either individually or jointly holding over 10% of the Company's shares may propose to convene an extraordinary general meeting to the Supervisory Committee. Such proposal shall be made to the Supervisory Committee in writing.

- If the Supervisory Committee agrees to convene the extraordinary general meeting, a notice convening the general meeting shall be issued within 5 days upon receipt of such request. Should there be any amendments to the original proposal in the notice, the consent of the relevant Shareholders shall be obtained.

- If the Supervisory Committee fails to give the notice of the general meeting within the specified time limit, it shall be deemed to have failed to convene or preside over the general meeting, in which case, Shareholder(s) either individually or jointly holding over 10% of the Company's shares for more than 90 consecutive days shall have the right to convene and preside over the meeting by themselves.

Pursuant to the relevant requirements of the Articles of Association and rules of general meetings of the Company, Shareholders have the right to inspect or make copies of the Articles of Association, minutes of general meetings, resolutions of Board meetings, resolutions of meetings of the Supervisory Committee and financial or accounting reports. Shareholders may request to inspect the accounting books of the Company. In such case, such request shall be made to the Board secretariat of the Company in writing and state its purposes. If the Company, on reasonable grounds, considers that the Shareholders are inspecting the accounting books for improper purposes and may result in damage to the Company's legal interests, the Company may refuse the inspection and make written response to the Shareholders stating its reasons within 15 days upon delivery of the written request by the Shareholders. If the Company refuses the inspection, the Shareholders may make proposal to the People's Court to request the Company to provide inspection of the accounting books of the Company.

Pursuant to the relevant requirements of the Articles of Association and rules of general meetings of the Company, the procedures for the Shareholders to propose resolutions at the general meeting are as follows:

– Shareholder(s) either individually or jointly holding over 3% of the issued shares of the Company carrying the right to vote may propose extraordinary resolutions and submit the same in writing to the convener prior to the holding of the general meeting. However, subject to the requirement of the Listing Rules, the Company shall issue supplemental circular of the new extraordinary resolutions and the relevant materials to the Shareholders at least 14 days before the date of holding the general meeting, therefore, the time for the proposing Shareholders to propose new extraordinary resolutions shall not be later than such time limit for issuing the supplemental circular to the Shareholders and shall consider and provide the Company reasonable time to prepare and despatch the supplemental circular.

– The aforesaid proposed resolutions shall be reviewed by the Board and shall be included in the agenda of such meeting if the matters fall within the scope of terms of reference of the general meeting. The convener shall announce the content of the extraordinary resolutions by issuing a supplemental notice of the general meeting upon receipt of the proposed resolutions as soon as possible. If the Board considers that the content of the proposed resolutions do not fall within the scope of terms of reference of the general meeting, explanation and description shall be given at such general meeting, which, together with the content of such proposed resolutions and explanation of the Board, shall be published along with the resolutions of the general meeting in announcement after the conclusion of the meeting.

– the Board shall review the proposed resolutions in accordance with the following principles:

  (1) Relevance. The Board shall review the resolutions proposed by the Shareholders. Matters in resolutions proposed by the Shareholders which have direct impact on the Company and are not outside the terms of reference of the general meeting as stipulated in the laws, regulations and the Articles of Association shall be submitted to the general meeting for discussion. For matters which fail to meet the above requirements, it is recommended not to submit the proposed resolutions for discussion at the general meeting.

  (2) Procedural issues. The Board may make decisions on procedural issues concerning resolutions proposed by the Shareholders. Consent of the proposing Shareholders shall be obtained if the proposed resolutions will be split up or combined for voting. In the event of any objection to the change by the proposing Shareholders, the convener of the general meeting may present the procedural issues to the general meeting for decision and discussions shall be conducted in accordance with the procedures decided by the general meeting.

Please refer to the section headed "Corporate Governance – Investor Relations" of this report for details of the contact information for Shareholders to inspect the relevant information and propose extraordinary resolutions.

The Company held two general meetings in 2013, details of which are set out as follows:

The 2012 annual general meeting of the Company was held on 26 June 2013 at the Meeting Centre, Shanghai International Airport Hotel (上海國際機場賓館), 2550 Hongqiao Road, Shanghai, the PRC. All of the 13 resolutions were considered and passed at the meeting. For details, please refer to the Company's announcement dated 26 June 2013.

The 2013 first extraordinary general meeting of the Company was held on 29 October 2013 at Shanghai International Airport Hotel (上海國際機場賓館), 2550 Hongqiao Road, Shanghai, the PRC. All of the 3 resolutions were considered and passed at the meeting. For details, please refer to the Company's announcement dated 29 October 2013.

Attendance of Directors at general meetings of the Company was as follows:

| Directors | Attendance/ Eligibility of Meetings | Attendance rate |
|---|---|---|
| Liu Shaoyong | 2/2 | 100% |
| Ma Xulun | 2/2 | 100% |
| Xu Zhao | 2/2 | 100% |
| Gu Jiadan | 2/2 | 100% |
| Li Yangmin | 2/2 | 100% |
| Tang Bing | 2/2 | 100% |
| Sandy Ke-Yaw Liu | 2/2 | 100% |
| Ji Weidong | 2/2 | 100% |
| Shao Ruiqing | 2/2 | 100% |
| Li Ruoshan | 2/2 | 100% |
| Ma Weihua | 1/1 | 100% |
| Luo Zhuping | 1/1 | 100% |
| Wu Xiaogen | 1/1 | 100% |

## MEETING OF THE BOARD

The Chairman leads the Board to ensure that the Board performs its various duties effectively and he is responsible for drawing up the agenda of the meeting of the Board and considering other matters that the other Directors propose to be included in the agenda. The agenda together with documents of the Board should be, as far as practicable, circulated at least 3 days prior to the meeting of the Board or its specialized committees. The Chairman is also obliged to ensure that all the Directors are suitably briefed on matters to be raised in the meeting of the Board. The Chairman ensures that the Directors receive information that is accurate, timely and clear. Through on-the-job training of Directors, continuous participation in meetings of the Board and of specialized committees of the Board and meetings with key persons in headquarters and other departments, the Directors are encouraged to update their skills, knowledge and their understanding of the Group.

The Company has established a specialized organization, i.e. the secretariat of the Board, to work for the Board. All the Directors have access to the service of the Company Secretary. The Company Secretary periodically updates the Board of the latest information on governance and regulatory matters. The Directors may seek independent professional advice through the Chairman for the purpose of performing their duties, with the cost borne by the Company. Specialized committees may also seek professional advice. The Company Secretary is responsible for the records of the Board meetings. These minutes of meetings together with other related documents for the Board meetings shall be made available to all members of the Board. Board meetings are meant to enable the Directors to have open and frank discussions.

In order to ensure sound corporate governance, as at the date of publication of this annual report, the Board had 4 committees in place: Audit and Risk Management Committee, Nominations and Remuneration Committee, Planning and Development Committee and Aviation Safety and Environment Committee with their terms of reference drawn up in accordance with the principles set out in the Code. The Company Secretary drafted the minutes of meetings for these committees, and the committees report to the Board.

The Board held 11 meetings in 2013. Details of attendance of each Director at the Board meetings were as follows:

| Directors | Attendance/ Eligibility of Meetings | Attendance rate |
|---|---|---|
| Liu Shaoyong | 11/11 | 100% |
| Ma Xulun | 11/11 | 100% |
| Xu Zhao | 11/11 | 100% |
| Gu Jiadan | 11/11 | 100% |
| Li Yangmin | 11/11 | 100% |
| Tang Bing | 11/11 | 100% |
| Sandy Ke-Yaw Liu | 11/11 | 100% |
| Ji Weidong | 11/11 | 100% |
| Shao Ruiqing | 11/11 | 100% |
| Li Ruoshan | 6/6 | 100% |
| Ma Weihua | 1/1 | 100% |
| Luo Zhuping | 5/5 | 100% |
| Wu Xiaogen | 5/5 | 100% |

Note: Each Director attended the respective Board meetings in person.

## DIRECTORS' INTERESTS

All the Directors shall declare to the Board upon their first appointment their capacities as directors or any other positions held in other companies or institutions, the declaration of which shall be renewed once a year. When the Board discusses any motion or transaction and considers any Director has any conflict of interest, the Director shall declare his interest and abstain from voting, and will excuse himself as appropriate. The Company shall, pursuant to guidelines applicable to the Company, request from Directors their confirmation if they or their associates are connected with any transactions entered into by the Company or its subsidiaries during the Reporting Period. Material related party transactions have been disclosed in the notes to the financial statements prepared in accordance with IFRS of this annual report.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the securities transactions code for the Directors. Each of the Directors and the Supervisors has been provided with a copy of the Model Code upon his appointment.

All the Directors and the Supervisors have confirmed that they have complied with the Model Code in 2013.

The Company has also adopted the related provisions set out in Appendix 14 to the Listing Rules, and has established its Code of Conduct for Securities Transactions by Employees of the Company according to its own situation and with reference to the Model Code as set out in Appendix 10 to the Listing Rules. The aforesaid code of conduct shall apply to the conduct of dealings in the securities of the Company by the Supervisors and members of senior management of the Company.

In addition, pursuant to the requirements of the Rules Governing the Listing of Stock on Shanghai Stock Exchange, the shares of the Company transferred by each of the Directors, Supervisors and members of senior management of the Company every year shall not exceed 25% of the total number of shares held by each of them, and they are not allowed to purchase the shares of the Company within six months after they have sold their shares. They are also not allowed to sell the shares of the Company within six months after they have bought the shares of the Company. Additionally, within six months after their retirement, they are not allowed to transfer the shares of the Company held by them.

All the employees who may have unpublished inside information related to the Group are also required to comply with the Model Code. During the Reporting Period, the Company is not aware of any breach of laws and regulations.

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors confirm that they are responsible for the preparation of the financial statements of the Group.

The Auditor's Report of the Company's auditors in respect of the financial statements is set out on page 74 to page 169 of this annual report.

## TRAINING OF DIRECTORS

| Content of development of skills and training | Directors participated |
|---|---|
| Training given by the Shanghai Stock Exchange regarding the latest regulatory requirements and regulation updates in January 2013 | All Directors |
| Themed training given by Hong Kong securities affairs partners of overseas law firm regarding new system requirements for disclosure of inside information in Hong Kong in August 2013 | All Directors |
| Compilation of and amendments to the "Guidelines on Duties of the Directors, Supervisors and Senior Management" by the Company in June 2013, which aimed at familiarizing Directors, Supervisors and senior management with the relevant laws and regulations and understanding of their duties. All the Directors completed the training by self-study. | All Directors |
| Integration and compilation of the latest laws and regulations as well as regulation updates of domestic and overseas capital markets by the Company from January to December 2013 which were reported to all the Directors in form of "Directors Information". All the Directors completed the training by self-study. | All Directors |
| Participation of trainings for directors and supervisors organized by the Association of Shanghai Listed Companies in May and December 2013 | Tang Bing |
| Participation of qualification training for independent directors of listed companies organized by the Shanghai Stock Exchange in February 2014 | Ma Weihua |

## TRAINING OF COMPANY SECRETARY

During the year 2013, our Company Secretary took no less than 15 hours of relevant professional training.

The board secretariat of the Company is responsible to arrange and review the training and continuous professional development of the Directors and the members of the senior management of the Company.

## AUDIT AND RISK MANAGEMENT COMMITTEE

As at 31 December 2013, the Audit and Risk Management Committee of the Company comprises Mr. Shao Ruiqing, Mr. Ji Weidong and Mr. Li Ruoshan, all of whom are independent non-executive Directors. Mr. Shao Ruiqing, the chairman of the committee, possesses professional qualifications in accounting. Mr. Li Ruoshan replaced Mr. Wu Xiaogen to be a member of the Audit and Risk Management Committee on 26 June 2013.

The Audit and Risk Management Committee is a specialized committee under the Board. It is responsible for checking and monitoring the financial reports and internal control of the Company, checking and evaluating the overall risk management of the Company, in particular the risk management and risk control policy for material decision, significant events and major business, and overseeing their implementation.

## (1) INTERNAL CONTROL

### Internal control system

The Board shall be responsible for the overall internal control system of the Company/Group and periodically review the effectiveness of the internal control system of the Company through the Audit and Risk Management Committee. The internal control system is essential to risk management which, in turn, is important in ensuring that operational objectives can be achieved. Internal control procedures are designed to prevent assets from unauthorized use or disposal, to ensure the maintenance of appropriate accounting records and to provide reliable financial information either for internal use or for dissemination externally. However, the control procedures aim at reasonably (but not absolutely) assuring that there will not be material misrepresentation, loss or misconduct. The internal control system is prepared in accordance with the relevant laws, subsidiary regulations and constitutional documents.

The Company reviews the effectiveness of its internal control system annually, which includes control over finance, operations, compliance with laws and regulations as well as risk management. The results of the review have been reported to the Audit and Risk Management Committee and the Board.

The Board confirms that the Company has systems and procedures in place to identify, manage and report material risks in the course of achieving its strategic objectives. The Board continues to monitor risks with the support of the specialized committees and senior management.

## (2) INTERNAL AUDIT

The Company's internal audit department is responsible for conducting an independent audit of whether or not the internal control system is sufficient and effective. The auditing plan is prepared using a risk based approach and is discussed and finalized by the Audit and Risk Management Committee annually. Other than the pre-determined scope of work for each year, the department is also required to conduct other specific audits.

The Group's internal audit department primarily reports to the President; it may also report directly to the chairman of the Audit and Risk Management Committee. All the internal audit reports are delivered to the Chairman of the Board, the President, Chief Financial Officer, the management of the department being audited and the related departments. The outcome of each audit, in summary, will also be discussed with the Audit and Risk Management Committee. The Board and the Audit and Risk Management Committee of the Company actively monitor the number and seriousness of the inspection results submitted by the internal audit department, and the relevant corrective measures taken by the relevant department.

## (3) RISK MANAGEMENT

The Audit and Risk Management Committee of the Company is responsible for checking and evaluating the overall risk management of the Company and overseeing their implementation; checking and evaluating the risk management and risk control system and duties on developing aviation fuel, foreign exchange and interest rate hedging businesses and overseeing their implementation.

The internal audit department of the Company has undertaken related risk management duties and reports to the Audit and Risk Management Committee periodically. It is responsible for coordinating the implementation of appropriate procedures to manage the operational risks of the Group.

The Audit and Risk Management Committee held seven meetings in 2013. In each meeting, senior management and external and internal auditors were invited to attend. Based on the reports of the external and internal auditors, according to the accounting principles and practices, and internal controls adopted by the Group with a view to comply with the requirements of the Listing Rules, the Audit and Risk Management Committee conducted reviews of audits, internal control, risk management and financial statements. The Group's first quarterly results, interim results and third quarterly results for 2013 and the final results for 2013 had been discussed in the Audit and Risk Management Committee's meetings before they were submitted to the Board for approval.

Attendance of members of the Audit and Risk Management Committee meetings is as follows:

| Members | Attendance/ Eligibility of Meetings | Attendance rate |
|---|---|---|
| Shao Ruiqing | 7/7 | 100% |
| Ji Weidong | 7/7 | 100% |
| Li Ruoshan | 3/3 | 100% |
| Wu Xiaogen (retired) | 4/4 | 100% |

Note: All members of the Audit and Risk Management Committee attended the respective Audit and Risk Management Committee meetings in person.

Additionally, the Audit and Risk Management Committee also conducted other compliance work to comply with PRC and USA reporting requirements in 2013, including guiding and overseeing the development of internal controls, hearing and reviewing the overall plan for risk management, implementing risk management work in accordance with the requirements of the relevant regulatory authorities in full scale, reviewing the Company's compliance with the Sarbanes-Oxley Act and considering the work undertaken by the management, including management assessment, to ensure the Company's compliance with internal control regulations under Section 404 of the Sarbanes-Oxley Act.

For details of duty performance of the Audit and Risk Management Committee, please refer to the announcement of the Company dated 26 March 2013 published on the website of the Hong Kong Stock Exchange.

The articles of association for the Audit and Risk Management Committee are posted on the website of the Company www.ceair.com.

## EXTERNAL AUDITORS

For the Reporting Period, the annual audit fees payable to the external auditors (both international and domestic auditors) is estimated to be RMB14.5 million for the regular annual audit of the Group's 2013 financial statements prepared under IFRS and PRC Accounting Standards and the other relevant documents applicable for the purpose of Annual Report in Form 20-F filing. During the Reporting Period, the external auditors did not receive any non-audit services fee from the Group. The auditors' remuneration shall be approved by the Audit and Risk Management Committee and the Board.

The Audit and Risk Management Committee obtained a brief understanding of the scope of the non-audit service and related fees and was satisfied that the non-audit service (in respect of the nature of service and the total cost of non-regular audit services compared to regular audit service fee) had not affected the independence of the accounting firm.

## PLANNING AND DEVELOPMENT COMMITTEE

As of 31 December 2013, the Planning and Development Committee of the Company comprises three members: Mr. Li Yangmin, Mr. Tang Bing and Mr. Shao Ruiqing, all of whom are Directors. Mr. Li Yangmin, a Director, is the chairman of the committee. Mr. Tang Bing replaced Mr. Luo Zhuping to be a member of the Planning and Development Committee on 26 June 2013 upon the retirement of Mr. Luo Zhuping.

The Planning and Development Committee is a specialized committee under the Board. It is responsible for studying, considering and making plans or recommendation in regard to the long term development plans and material investment decisions of the Company and overseeing their implementation. Its main duties are:

– to consider the annual operational goals of the Company and make recommendations to the Board;

– to consider the annual investment proposal of the Company and make recommendations to the Board;

– to consider the material investments (other than the annual investment proposal) of the Company and make recommendations to the Board;

– to consider the development plan of the Company and make recommendations to the Board;

– to study and consider the fleet development plan and aircraft purchase plan of the Company and submit independent report to the Board;

– to study other major events which may have influence on the development of the Company and make recommendations in connection with the same;

– to oversee the implementation of the above matters and conduct inspection of the same;

– to consider other matters as authorized by the Board and oversee their implementation.

Attendance of members of the Planning and Development Committee meetings is as follows:

| Members | Attendance/ Eligibility of Meetings | Attendance rate |
|---|---|---|
| Li Yangmin | 9/9 | 100% |
| Tang Bing | 5/5 | 100% |
| Shao Ruiqing | 9/9 | 100% |
| Luo Zhuping (retired) | 4/4 | 100% |

Note: All members of the Planning and Development Committee attended the respective Planning and Development Committee meetings in person.

The Planning and Development Committee is responsible for studying, considering and making plans or recommendation in regard to the long term development plans and material investment decisions of the Company and overseeing their implementation. The opinions and advice by the Planning and Development Committee in 2013 are as follows:

– Advice regarding key investment projects for the year:

(1) The formulation of investment proposals shall be in line with the general development plan of the Company and implementation of the proposals shall be controlled on this basis;

(2) Budget shall be strictly controlled in the implementation of investment proposals and the impacts of economic volatility and market factors shall be considered in order to reasonably arrange funds and control costs;

(3) Risk management and control system shall be improved to strengthen the risk management and control in all stages;

(4) Assessment system shall be improved and the effectiveness of key investment projects shall be examined.

– Advice regarding the signing of the Agreement on Transfer of Exclusive Rights to Use Media and Advertising Resources (媒體及廣告資源特許使用權轉讓協議) are as follows:

(1) The Company shall negotiate with the media companies more frequently to clarify the extent of the transfer of exclusive rights and shall co-ordinate the transfer of media business of the Company's internal investment corporations.

(2) The Company shall set fair prices, conduct compliant operations and do information disclosure well in accordance with relevant laws and regulations as the issue involves connected transactions of substantial amounts and important external commitments.

– Advice regarding the disposal of shareholding of Shanghai Airlines Travel Hotel and the issues on responding to horizontal competitions are as follows:

  (1) As the disposal of shareholding of Shanghai Airlines Travel Hotel involves the performance of external commitment of CEA Holding, the Company shall proactively co-ordinate all related departments to foster the confirmation of the proposal and promptly respond to the problem of horizontal competition in hotel and tourism industry so as to ensure the problem can be solved within the commitment period.

  (2) The timely performance of external commitment of a listed company is one of the key issues which security regulatory organizations and investors put much emphasis on. Therefore, the Company shall communicate well with regulatory organizations and investors while proactively solving the problems.

The articles of association for the Planning and Development Committee are posted on the website of the Company www.ceair.com.

## NOMINATIONS AND REMUNERATION COMMITTEE

As of 31 December 2013, the Nominations and Remuneration Committee of the Board comprises three members: Mr. Liu Shaoyong, Mr. Sandy Ke-Yaw Liu and Mr. Ji Weidong. Mr. Liu Shaoyong is the chairman of the committee, while both Mr. Sandy Ke-Yaw Liu and Mr. Ji Weidong are independent non-executive Directors (with effect from 1 April 2012, when considering and approving nomination related matters, the Nominations and Remuneration Committee shall be chaired by Mr. Liu Shaoyong; when considering and approving remuneration related matters, the Nominations and Remuneration Committee shall be chaired by Mr. Sandy Ke-Yaw Liu or Mr. Ji Weidong).

The main duties of the Nominations and Remuneration Committee of the Board are:

– to make recommendations to the Board regarding its size and composition based on the relevant provisions of the Company Law and in the light of specific circumstances such as the characteristics of the Company's equity structure;

– to study the criteria and procedures for selecting Directors and management personnel, and to make recommendations to the Board;

– to conduct wide-ranging searches for qualified candidates to become Directors and members of the management personnel;

– to examine the candidates for the positions of Director and manager and make recommendations in connection with the same;

– to examine candidates for other senior management positions whose engagement is subject to approval by the Board and make recommendations in connection with the same;

– to study and review the policies and plans for remuneration of the Directors and senior management personnel;

– to study the criteria for assessing the Directors and senior management personnel, carry out such assessments, and make recommendations in connection with the same;

– to evaluate the performance of the Directors and senior management personnel based on the Company's actual business circumstances, and make recommendations in connection with the same;

– to be responsible for monitoring the implementation of the Company's remuneration system; and

– other matters delegated by the Board.

According to the Detailed Working Rules for the Nominations and Remuneration Committee of the Board of Directors, the procedure for electing Directors and management personnel is as follows:

– the Nominations and Remuneration Committee shall actively liaise with the relevant departments of the Company to study the requirement for Directors and management personnel, and produce a written document thereon;

– the Nominations and Remuneration Committee may conduct a wide-ranging search for candidates for the positions of Director and manager within the Company, within enterprises controlled by the Company or within enterprises in which the Company holds equity, and on the human resources market;

– the profession, academic qualifications, professional titles, detailed work experience and all concurrently held positions of the initial candidates shall be compiled as a written document;

– the Nominations and Remuneration Committee shall listen fully to the opinion of the nominee regarding his/her nomination;

– a meeting of the Nominations and Remuneration Committee shall be convened, and the qualifications of the initial candidates shall be examined on the basis of the conditions for appointment of Directors and managers;

– before the selection of a new Director and the engagement of a new member of the management personnel, the recommendations of and relevant information on the relevant candidate(s) shall be submitted to the Board; and

– the Nominations and Remuneration Committee shall carry out other follow-up tasks based on the decisions of and feedback from the Board.

The Nominations and Remuneration Committee is responsible to make recommendations to the Board on the remuneration packages of individual executive Directors and the members of the senior management of the Company.

Attendance of members of the Nominations and Remuneration Committee meetings are as follows:

| Members | Attendance/ Eligibility of Meetings | Attendance rate |
|---|---|---|
| Liu Shaoyong | 6/6 | 100% |
| Sandy Ke-Yaw Liu | 6/6 | 100% |
| Ji Weidong | 6/6 | 100% |

Note: All members of the Nominations and Remuneration Committee attended the respective Nominations and Remuneration Committee meetings in person.

Under the leadership of the Board, the Nominations and Remuneration Committee performed their duties diligently to standardize the election of Directors and members of senior management of the Company, establish and refine the incentive and assessment mechanism of Directors and members of senior management of the Company and realize the long-term goals of the Company. Major tasks completed by the Nominations and Remuneration Committee were as follows:

– standardized the election of Directors and members of senior management and nominating candidates to become Directors and members of senior management to the Board;

– after taking into consideration of the diversity of the Board (including but not limited to gender, age, cultural and educational background, or professional experience) and conducting prudent research, smoothly completed the assessment and nomination of the rotation election of the seventh session of the Board;

– considered the remuneration of the Directors and members of senior management for year 2012.

The Nominations and Remuneration Committee made the following advice regarding the rotation of the seventh session of the Board:

– the duties of the existing Directors and Independent Directors shall be fully utilized;

– qualified Independent Directors shall be elected to meet the structure requirement that the number of independent directors shall exceed 1/3 of the board composition.

The Detailed Working Rules for the Nominations and Remuneration Committee are posted on the website of the Company www.ceair.com.

## REMUNERATION POLICY OF DIRECTORS

Directors generally do not receive remuneration from the Company except independent non-executive Directors who receive a fixed remuneration. However, Directors who serve in other administrative positions of the Company will receive salary separately for those positions.

Certain Directors received emoluments from CEA Holding, the controlling shareholder of the Company, in respect of their directorship or senior management positions in CEA Holding and its subsidiaries.

Generally, the policy regarding the remuneration packages of Directors are aimed primarily at linking the remuneration of Directors and their performance to the objectives of the Company, in order to motivate them in their performance and retain them. Pursuant to the policy, the Directors are not allowed to approve their own remuneration.

The major composition of remuneration of the Directors include basic salary and bonus.

## BASIC SALARY

The Directors review the basic salary of each Director on an annual basis pursuant to the remuneration policy of the Company. In 2013, pursuant to the service contracts entered into between the Company and each of the Directors, the Directors are entitled to receive a fixed basic salary.

## BONUS

Bonuses are calculated based on the measurable performance and contribution of the operating units for which the Directors are responsible.

## REMUNERATION POLICY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Remuneration (before tax) received by the Company's independent non-executive Directors in 2013 were as follows:

| | |
|---|---|
| Sandy Ke-Yaw Liu | RMB120,000 |
| Wu Xiaogen | 0 |
| Ji Weidong | RMB120,000 |
| Shao Ruiqing | RMB120,000 |
| Li Ruoshan | RMB60,000 |
| Ma Weihua | RMB30,000 |

Notes:

1. Mr. Li Ruoshan was appointed since June 2013. Therefore, the remuneration disclosure period is from July to December 2013.

2. Mr. Ma Weihua was appointed since October 2013. Therefore, the remuneration disclosure period is from October to December 2013.

## REMUNERATION OF SENIOR MANAGEMENT

The remuneration payable to the members of the senior management of the Company in 2013 are set out as follows:

| Name | Position | Remuneration before tax (RMB) |
|---|---|---|
| Ma Xulun | Vice Chairman, President | 713,000 |
| Li Yangmin | Director, Vice President | 638,600 |
| Tang Bing | Director, Vice President | 603,900 |
| Ba Shengji | Supervisor | 324,800 |
| Feng Jinxiong | Supervisor | 421,900 |
| Yan Taisheng | Supervisor | 384,300 |
| Shu Mingjiang | Vice President | 1149,100 |
| Wu Yongliang | Vice President, Chief Financial Officer | 640,900 |
| Tian Liuwen | Vice President | 641,700 |
| Feng Liang | Vice President | 360,500 |
| Wang Jian | Board Secretary, Joint Company Secretary, Authorised Representative | 538,900 |
| Luo Zhuping | Director | 391,400 |

Notes:

1. Mr. Ba Shengji was appointed since June 2013 and was then re-designated to CEA Holding due to change of duties. Therefore, the remuneration disclosure period is from July to September 2013.

2. Mr. Shu Mingjiang is a pilot. His remuneration includes air crewman packages.

3. Mr. Feng Liang was appointed since August 2013. Therefore, the remuneration disclosure period is from August to December 2013.

4. Mr. Sun Youwen was appointed since March 2014. Therefore, his remuneration is not in the scope of this senior management remuneration disclosure.

5. Mr. Luo Zhuping retired since June 2013. Therefore, the remuneration disclosure period is between January and June 2013.

## AVIATION SAFETY AND ENVIRONMENT COMMITTEE

The Aviation Safety and Environment Committee comprises Mr. Ma Xulun, Mr. Li Yangmin and Mr. Sandy Ke-Yaw Liu, and Mr. Ma Xulun serves as the chairman of the committee.

The Aviation Safety and Environment Committee is a specialized committee under the Board. It is responsible for consistent implementation of the relevant laws and regulations of national aviation safety and environmental protection, examining and overseeing the aviation safety management of the Company, studying, considering and making recommendation on aviation safety plans and major issues of the related safety duties and overseeing their implementation, studying, considering and making recommendation on major environmental protection issues in relation to aviation carbon emission on domestic and international levels and overseeing their implementation.

Attendance of members of the Aviation Safety and Environment Committee meetings are as follows:

| Members | Attendance/ Eligibility of Meetings | Attendance rate |
|---|---|---|
| Ma Xulun | 1/1 | 100% |
| Li Yangmin | 1/1 | 100% |
| Sandy Ke-Yaw Liu | 1/1 | 100% |

Note: All members of the Aviation Safety and Environment Committee attended the respective Aviation Safety and Environment Committee meetings in person.

Members of the Aviation Safety and Environment Committee made some advice regarding work safety and environmental protection work of the Company for 2013:

– the Company shall formulate feasible means to truly implement its work by following the safety management work requirements;

– the Company shall emphasize on solving problems such as hard landing, light strike, unstable approach, as well as the "high, floating and vibrating" situations in landing and shall control new points of risk; and

– the Company shall proactively respond to ETS (Emission Trading Scheme) of European Union, pay attention to the testing work on carbon emission in Shanghai and complete the calculation and preparation work.

The Detailed Working Rules for the Aviation Safety and Environment Committee are posted on the website of the Company www.ceair.com.

## INVESTOR RELATIONS

Pursuant to the Investor Relations Management System (投資者關係管理制度) and the Detailed Implementation Rules for Management of Investor Relations (投資者關係管理工作實施細則), the Company communicates with investors through channels such as face-to-face communication, phone, fax and network so as to further foster corporate integrity and self-discipline, to realize standardized operation and to ensure that interests of investors are protected.

The Company puts much emphasis on communication with investors and undertakes that the disclosure it makes is fair and the reports it provides are comprehensive and transparent. The routine communication of the Board with the substantial shareholders is mainly conducted through the Company Secretary.

The Company has drawn up and implemented the Investor Relations Management System and the Detailed Implementation Rules for Management of Investor Relations to clarify the basic principles and structure of investor relations management, as well as the details and duties of investor relations, so as to further foster corporate integrity and self-discipline, to realize standardized operation, to achieve the ultimate goals of maximizing corporate value and Shareholders' interests and to ensure that interests of investors are protected. The Company has also drawn up and implemented the Information Disclosure Management System and has further improved the Company's information disclosure system in order to ensure the accuracy, completeness and timeliness of information disclosed to public.

The 2012 annual general meeting was held on 26 June 2013 in Shanghai. A total of 17 Shareholders attended in person or by proxy. At the annual general meeting, each matter was proposed as an individual resolution and voted by poll.

In 2013, the Board Secretary, the managers of investor relations department and capital market department of the Company received visits of investors for 58 times and 101 persons in total, participated in 13 annual meetings held by security dealers, organized 2 regular result release roadshows, convened 1 regular on-site results release press conference and convened 5 regular on-site and telephone result analysts meetings.

Based on the information publicly available to the Company and to the best knowledge of the directors of the Company, at least 25% of issued share capital of the Company was held by the public.

Investors and the public may access our website (www.ceair.com) and download related document briefings. The website also sets out details of each of the Group's operations. Announcements, notices or other documents issued by the Company may also be downloaded from the website of the Company.

For any enquiries of the Board, Shareholders may contact the Company Secretary by phone at 8621-22330928, 22330921 or by e-mail at ir@ceair.com or they may put forward their questions in the annual general meeting or extraordinary general meetings. In respect of the procedures for Shareholders to convene annual general meeting or extraordinary general meetings and propose resolutions, they may enquire with the Company Secretary through the aforesaid channels.

Shareholders may also contact the Company Secretary or Representative of the Company's securities affairs to inspect the relevant information and propose extraordinary resolutions at the contact given below:

| | |
|---|---|
| Board Secretary, Joint Company Secretary | Wang Jian |
| Address | The Secretariat of the Board, China Eastern Airlines Corporation Limited, 92 Konggang 3rd Road, Changning District, Shanghai |
| Telephone | 021-22330928 |
| Fax | 021-62686116 |
| Email | ir@ceair.com |

| | |
|---|---|
| Representative of the Company's securities affairs | Yang Hui |
| Address | The Secretariat of the Board, China Eastern Airlines Corporation Limited, 92 Konggang 3rd Road, Changning District, Shanghai |
| Telephone | 021-22330921 |
| Fax | 021-62686116 |
| Email | davidyang@ceair.com |

## CHANGES IN CONSTITUTIONAL DOCUMENTS

Please refer to section headed "Report of Directors – Significant Events" of the annual report for details of the amendments of the Articles of Association made in 2013.

On behalf of the Board

**Liu Shaoyong**
*Chairman*

Shanghai, the PRC
26 March 2014

Dear Shareholders,

With the attitude of being responsible to all the Shareholders, the Supervisory Committee of the Company proactively launched its work, truly performed its duties of supervision and protected the legal interests of the Company and all the Shareholders in 2013 based on the Company Law and the Articles of Association.

## I. Meetings Convened by the Supervisory Committee

1. On 25 January 2013, the Supervisory Committee convened a meeting, at which it considered and approved the proposal regarding the amendments to the Provision Standards for Decrease in Inventory Price (存貨跌價準備計提標準).

2. On 26 March 2013, the Supervisory Committee convened a meeting, at which it adopted the Report of the Supervisory Committee for the year 2012 and it was submitted to the 2012 annual general meeting for discussion. The Supervisory Committee also approved full text and summary of the resolution on daily connected transactions of the Company for the year 2012, internal control assessment report of the Company for the year 2012, financial report of the Company for the year 2012, as well as the profit distribution proposal and report, and expressed an audit opinion.

3. On 26 April 2013, the Supervisory Committee convened a meeting, at which it considered and approved the resolution on nomination of candidates for the seventh session of the Supervisory Committee and it was submitted to the 2012 annual general meeting for discussion. The Supervisory Committee also considered and approved the 2013 first quarterly financial report, full text and summary of the Company's first quarterly report and expressed an audit opinion.

4. On 26 June 2013, the Supervisory Committee convened a meeting, at which it considered and approved the resolution on election of the chairman of the seventh session of the Supervisory Committee of the Company.

5. On 26 August 2013, the Supervisory Committee convened a meeting, at which it considered and approved the 2013 interim financial report, full text and summary of the Company's interim report, as well as the resolution on daily connected transactions, and expressed an audit opinion.

6. On 29 October 2013, the Supervisory Committee convened a meeting, at which it considered and approved the 2013 third quarterly financial report, full text and summary of the Company's third quarterly report and expressed an audit opinion.

## II. Independent Opinion of the Supervisory Committee

### 1. Legality of the Operation of the Company

In 2013, the Supervisory Committee monitored the procedures of convening the general meetings and Board meetings of the Company and their resolutions, execution of the resolutions passed in the general meetings by the Board, and execution of the resolutions passed in the Board meetings by the management. It is of the view that the Company has strictly complied with the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Listing Rules, the Articles of Association and other regulations in drawing operational decisions, monitored its operations based on law, continuously optimized the internal control system and further enhanced its corporate governance standards. The Directors and the senior management of the Company were able to protect the interests of the Shareholders and the Company as a whole and carry out their duties with dedication. The Supervisory Committee did not discover any of their actions that in any way violated laws, regulations, or the Articles of Association or were prejudicial to the interests of the Company.

### 2. Financial Position of the Company

The Supervisory Committee seriously reviewed the Company's 2013 financial report, 2013 profit distribution proposal, 2013 annual report and the 2013 financial audit report issued by the PRC and international auditors expressing unqualified opinions. The Supervisory Committee resolved that the Company's 2013 financial report truly reflects the financial position and operating results of the Company for the year 2013. The Supervisory Committee agreed to the 2013 financial audit report issued by the auditors and the 2013 profit distribution proposal of the Company.

### 3. Purchases or Sale of Assets of the Company

In 2013, the Supervisory Committee conducted examination on the resolutions in respect of major acquisitions, asset disposal and connect transactions. The Supervisory Committee did not discover any acts of insider trading, any acts prejudicial to the interests of the Shareholders or resulting in loss of assets or prejudice to the interests of the Company.

### 4. Connected Transactions of the Company

In 2013, the Supervisory Committee conducted examination on the resolutions in respect of the connected transactions of the Company. The Supervisory Committee conducted examinations on all the connected transactions of the Company in the current year, and believes that all the contracts, agreements and other relevant documents related to the connected transactions of the Company in the current year had complied with the legal procedures and the terms of the transactions were fair and reasonable to the Company and the Shareholders as a whole. The connected transactions were dealt with under stringent principles of "fairness, impartiality and transparency". The Supervisory Committee did not discover any acts of insider trading or breach of good faith by the Board in making decisions, signing agreements and information disclosure.

### 5. Internal Control of the Company

The Supervisory Committee reviewed the Assessment Report of the Company's Internal Control for the year 2013 in a prudent and cautious manner and has no objection with the self-assessment report of the Board. The Supervisory Committee also seriously reviewed the internal control audit report issued by the auditor. The Supervisory Committee considers that the Company has a developed internal control regulation system in place and the implementation in actual circumstances is satisfactory.

The Supervisory Committee is extremely grateful for the continuous support for its work offered by all the Shareholders, the Board and its staff.

On behalf of the Supervisory Committee

**Yu Faming**
*Chairman of the Supervisory Committee*

Shanghai, the PRC
26 March 2014

## Social Responsibilities

The social responsibility concept of the Company is "cherished by staff, preferred by customers, satisfactory to shareholders and trusted by society". Scope of the Company's social responsibilities covers three main aspects which are economic responsibility, social responsibility and environmental responsibility. We are committed to guiding and innovating the Company's work with a scientific sense of social responsibility. Based on integrity and not to regard profit as the only aim, the Company has adhered to its business conduct to be responsible to society, protect the environment, care for our staff and make sustainable development so as to achieve operation as a going concern.

## Responsibilities to Staff

Caring for our staff is a crucial factor of building up a "Happy Eastern Airlines" and the passion of staff comes first when establishing a "world class" corporation. Eastern Airlines has been dedicated to being human-oriented, maintaining staff benefit, responding to staff's concerns, respecting staff's contributions and talents, valuing staff's opinions and suggestions and treasuring staff's passion and creativity. We also provide fair and justice benefits and opportunities to every staff with an aim to establish a home which our staff love.

## Responsibilities to Customers

Eastern Airlines proactively follows the trend of internet generation to provide customers with safe, comfortable and convenient aviation services, as well as accurate, exquisite, refined and wonderful personalised services in order to satisfy consumption demand of customers, improve customer psychological experience, exceed customers' expectation, gain trust and loyalty from customers, be an airlines with emotions and become the first choice of customers. We will strive to promote the brand's core value of "World Class Hospitality with Eastern Charms".

## Responsibilities to Shareholders

Eastern Airlines has adhered to regulated and strict corporate governance, operated in compliance with laws and regulations, maintained investor relations, improved investor communication and proactively responsed to important issues which investors are concerned about. Since 2009, the Company has recorded profit consecutively. Our capital operation has been stable, capital quality has been improving and brand image has also been promoted comprehensively.

## Responsibilities to Society

Eastern Airlines has always adhered to the development concept of emphasizing on both economic benefits and social benefits to achieve sustainable development. Application of new technology is promoted and the management method is innovated. In addition, we implemented low-carbon flight, optimized energy management, promoted environmental protection, cared about social well-being and put efforts into public welfare with an aim to pursue collective development and improvement of the Company and the society.

- **Low-Carbon Flight**

  The Group promotes low-carbon flight and explores the potential of energy-saving. It eliminated and surrendered the lease of older aircraft and introduced new, more fuel-efficient aircraft. Highly efficient new engines were also selectively installed. Continuous optimization of fleet structure enhanced the environmental performance of fleet. Energy-saving and emission reduction were facilitated by installing small wings and refitting energy-saving environmentally friendly engines. Aircraft supplies made of green and environmentally-friendly materials have been used to promote green, low-carbon and healthy aviation.

  The Group has proactively developed, applied and promoted new technologies to provide safe and low-carbon aviation protection. Application of EFB can realize electronization of aircraft information, thereby reducing printing of paper manuals as well as costs of fuel-consumption and human resources. Adoption of ADS-B reduces the workload of flight crew and fuel consumption, thereby promoting flight safety. Implementation of PBN may increase airspace capacities, decrease input of ground navigation facilities, decrease fuel consumption and promote energy-saving and emission reduction.

- **Environmental Protection**

  The Group puts great emphasis on environmental protection. It strictly processes electronic hazardous wastes and industrial wastes and standardizes the procedures of processing wastes. The Group also created a brilliant office environment. The landscaping ratio of offices in Hongqiao Airport and Pudong Airport reached 40.5% and 31.2% respectively and we gained the recognition of being a "garden unit in Shanghai" again. Information technology management systems such as joint office system and mobile office system were established to advocate the concept of a paperless office. The energy consumption at office is also reduced by reducing the number of conferences and promotion of video conferencing. In addition, the Group promotes a green and low-carbon style, as well as energy-saving and ecological civilization by continuous recycling and discard of old office equipment.

- **Community Charity**

  The Group proactively supports and participates in social charitable events. We have continuously participated in supporting poverty relief activities in Shuangjiang and Cangyuan in Yunnan Province for over ten years. In 2013, the Group launched various activities, including the activity assisting the construction of Cangyuan Airport, investment in the establishment of CEA Demonstration Village, selection of talented individuals for secondment to assist the local poverty relief activities, and the construction of Hope School.

In 2013, the Group fully supported the relief work following the Richter scale 7.0 earthquake in Ya'an, Sichuan Province and the Richter scale 6.6 earthquake in Dingxi, Gansu Province. We deployed a number of passenger aircraft and freights to support the relief work, achieved the transportation of staff and materials, guaranteed the priority of relief flights and donated to the earthquake areas. The Group also proactively participated in relief work following the wind damage in Manila and the landslide in Zhaotong.

In addition, the Group fully promoted the large-scale voluntary service campaign called "Love at China Eastern Airlines". We organized and launched a series of community charity activities such as airport lounge guide tours and provision of education subsidies. In 2013, 876 projects were launched with 51,983 staff members participated, serving a total of 48,909 people. Through the interaction with the community, the Group has established a charity brand image of "delivering love and serving the community".

## Awards and Recognition in 2013

The Group is committed to works relating to brand image management, communications and promotion as well as brand enhancement. After years of effort, the Group through its continued efforts has established a premium brand image in the market and received various major awards: in 2013, the Company was honored as the National 1 May Award Certificate (全國五一勞動獎狀); one of the 2013 Top 10 Companies with the Best Corporate Social Responsibility (企業社會責任排行榜10強) by Fortune China Magazine; awarded "Best Mid-cap Company" by Hong Kong Asiamoney Magazine for the second consecutive year; recognized as "Top 50 Most Valuable Chinese Brands in 2013" by WPP, a global brand communication and public relations firm; awarded the "Golden Bauhinia Award" of the "Best Listed Company" and "Listed Company with the Best Investor's Relations Management" by Ta Kung Pao; honored as one of the "Top 100 Employers" by zhaopin.com. The Group's international brand of "World-class Hospitality with Eastern Charm" is gaining increasing public recognition.

**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 (together, the "Group") set out on pages 75 to 169, which comprise the consolidated and the Company statements of financial position as at 31 December 2013, 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 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' judgment, 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 state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
26 March 2014

# Consolidated Statement of Profit or Loss and Other Comprehensive Income



(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 Restated* |
|---|---|---|---|
| **Revenues** | 5 | 88,245,000 | 85,253,317 |
| Other operating income | 6 | 2,725,361 | 1,832,754 |
| **Operating expenses** | | | |
| Aircraft fuel | | (30,681,401) | (29,871,506) |
| Gain on fair value movements of derivative financial instruments | 8 | 18,338 | 24,831 |
| Take-off and landing charges | | (9,189,527) | (9,065,649) |
| Depreciation and amortisation | | (8,226,198) | (7,556,910) |
| Wages, salaries and benefits | 9 | (13,453,784) | (12,302,858) |
| Aircraft maintenance | | (4,690,109) | (4,432,741) |
| Impairment (charge)/reversal | 10 | (185,857) | 13,467 |
| Food and beverages | | (2,268,312) | (2,031,425) |
| Aircraft operating lease rentals | | (4,605,460) | (4,438,169) |
| Other operating lease rentals | | (678,928) | (609,111) |
| Selling and marketing expenses | | (4,138,907) | (3,727,437) |
| Civil aviation development fund | | (1,565,624) | (1,414,457) |
| Ground services and other expenses | | (5,105,060) | (3,305,303) |
| Indirect operating expenses | | (4,623,173) | (4,016,511) |
| **Total operating expenses** | | (89,394,002) | (82,733,779) |
| **Operating profit** | 11 | 1,576,359 | 4,352,292 |
| Share of results of associates | 23 | 38,335 | 103,209 |
| Share of results of joint ventures | 24 | 26,588 | 29,960 |
| Finance income | 12 | 2,124,440 | 348,601 |
| Finance costs | 13 | (1,548,622) | (1,697,474) |
| **Profit before income tax** | | 2,217,100 | 3,136,588 |
| Income tax expense | 14 | (124,281) | (207,407) |
| **Profit for the year** | | 2,092,819 | 2,929,181 |
| **Other comprehensive income for the year** | | | |
| *Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:* | | | |
| Cash flow hedges, net of tax | 40 | 245,942 | (9,211) |
| Fair value movements of available-for-sale financial assets, net of tax | | 156,578 | (389) |
| Fair value movements of available-for-sale financial assets held by an associate, net of tax | 23 | (2,931) | 2,188 |
| **Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods** | | 399,589 | (7,412) |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods:* | | | |
| Actuarial gains on the post-retirement benefit obligations, net of tax | | 467,476 | 139,312 |
| **Net other comprehensive income not to be reclassified to profit or loss in subsequent periods** | | 467,476 | 139,312 |
| **Other comprehensive income, net of tax** | | 867,065 | 131,900 |
| **Total comprehensive income for the year** | | 2,959,884 | 3,061,081 |

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 Restated* |
|---|---|---|---|
| **Profit/(loss) attributable to:** | | | |
| Equity shareholders of the Company | | 2,372,571 | 3,071,514 |
| Non-controlling interests | | (279,752) | (142,333) |
| **Profit for the year** | | 2,092,819 | 2,929,181 |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Equity shareholders of the Company | | 3,180,134 | 3,221,378 |
| Non-controlling interests | | (220,250) | (160,297) |
| **Total comprehensive income for the year** | | 2,959,884 | 3,061,081 |
| **Earnings per share attributable to the equity shareholders of the Company during the year** | | | |
| – Basic and diluted (RMB) | 17 | 0.20 | 0.27 |

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Dividends | 15 | – | – |

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer to Note 2(a)(ii).

The notes on page 84 to 169 are an integral part of these financial statements.

# Consolidated Statement of Financial Position

(Prepared in accordance with International Financial Reporting Standards)
31 December 2013

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 Restated* | 1 January 2012 RMB'000 Restated* |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 18 | 11,490,107 | 11,449,099 | 11,353,590 |
| Property, plant and equipment | 19 | 92,782,602 | 82,518,761 | 73,757,795 |
| Lease prepayments | 20 | 2,154,644 | 1,781,846 | 1,471,272 |
| Advanced payments on acquisition of aircraft | 21 | 16,296,281 | 11,894,891 | 10,968,344 |
| Investments in associates | 23 | 1,064,408 | 833,472 | 837,589 |
| Investments in joint ventures | 24 | 433,024 | 418,159 | 423,256 |
| Available-for-sale financial assets | | 410,737 | 234,690 | 240,380 |
| Other long-term assets | 25 | 2,369,150 | 1,958,256 | 1,929,834 |
| Deferred tax assets | 37 | 389,466 | 124,658 | 105,688 |
| Derivative financial instruments | 40 | 67,709 | – | 4,365 |
| | | 127,458,128 | 111,213,832 | 101,092,113 |
| **Current assets** | | | | |
| Flight equipment spare parts | 26 | 2,305,412 | 2,087,978 | 1,555,544 |
| Trade receivables | 27 | 3,524,546 | 2,962,181 | 2,504,026 |
| Prepayments and other receivables | 28 | 4,058,167 | 3,368,648 | 2,410,895 |
| Derivative financial instruments | 40 | – | 18,074 | – |
| Restricted bank deposits and short-term bank deposits | 29 | 383,063 | 1,726,251 | 2,894,287 |
| Cash and cash equivalents | 30 | 1,994,978 | 2,511,696 | 3,860,973 |
| Assets classified as held for sale | 44 | 343,754 | – | 482,313 |
| | | 12,609,920 | 12,674,828 | 13,708,038 |
| **Current liabilities** | | | | |
| Sales in advance of carriage | | 3,534,525 | 3,094,427 | 3,197,651 |
| Trade and bills payable | 31 | 3,463,016 | 3,075,325 | 2,692,624 |
| Other payables and accruals | 32 | 18,145,874 | 16,256,225 | 16,267,287 |
| Current portion of obligations under finance leases | 33 | 2,980,398 | 2,605,269 | 2,459,259 |
| Current portion of borrowings | 34 | 23,285,187 | 22,639,955 | 18,171,130 |
| Income tax payable | | 215,332 | 181,788 | 172,319 |
| Current portion of provision for return condition checks for aircraft under operating leases | 35 | 1,453,985 | 734,205 | 375,409 |
| Derivative financial instruments | 40 | 3,386 | 35,813 | 51,063 |
| | | 53,081,703 | 48,623,007 | 43,386,742 |
| **Net current liabilities** | | (40,471,783) | (35,948,179) | (29,678,704) |
| **Total assets less current liabilities** | | 86,986,345 | 75,265,653 | 71,413,409 |

## Consolidated Statement of Financial Position

(Prepared in accordance with International Financial Reporting Standards)
31 December 2013

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 Restated* | 1 January 2012 RMB'000 Restated* |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Obligations under finance leases | 33 | 20,154,750 | 19,252,709 | 17,801,563 |
| Borrowings | 34 | 27,315,243 | 23,096,163 | 23,603,463 |
| Provision for return condition checks for aircraft under operating leases | 35 | 2,763,181 | 3,064,557 | 2,923,717 |
| Other long-term liabilities | 36 | 2,401,876 | 1,635,537 | 2,047,099 |
| Post-retirement benefit obligations | 38 | 5,615,293 | 6,147,851 | 6,000,328 |
| Deferred tax liabilities | 37 | 29,550 | 29,326 | 29,326 |
| Derivative financial instruments | 40 | 124,194 | 304,338 | 281,921 |
| | | 58,404,087 | 53,530,481 | 52,687,417 |
| **Net asset** | | 28,582,258 | 21,735,172 | 18,725,992 |
| **Equity** | | | | |
| Capital and reserves attributable to the equity shareholders of the Company | | | | |
| – Share capital | 42 | 12,674,269 | 11,276,539 | 11,276,539 |
| – Reserves | 43 | 14,228,047 | 8,930,828 | 5,855,815 |
| | | 26,902,316 | 20,207,367 | 17,132,354 |
| Non-controlling interests | | 1,679,942 | 1,527,805 | 1,593,638 |
| **Total equity** | | 28,582,258 | 21,735,172 | 18,725,992 |

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer to Note 2(a)(ii).

The notes on pages 84 to 169 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 26 March 2014 and were signed on its behalf.

**Liu Shaoyong**
*Director*

**Ma Xulun**
*Director*

# Company's Statement of Financial Position



(Prepared in accordance with International Financial Reporting Standards)
31 December 2013

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 Restated* | 1 January 2012 RMB'000 Restated* |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 18 | 11,469,272 | 11,431,806 | 11,343,374 |
| Property, plant and equipment | 19 | 58,910,446 | 56,015,173 | 50,246,293 |
| Lease prepayments | 20 | 1,181,863 | 781,146 | 497,301 |
| Advanced payments on acquisition of aircraft | 21 | 15,683,647 | 10,733,899 | 10,195,340 |
| Investments in subsidiaries | 22 | 9,568,564 | 10,455,900 | 7,104,106 |
| Investments in associates | 23 | 611,585 | 578,836 | 578,836 |
| Investments in joint ventures | 24 | 323,238 | 323,238 | 323,238 |
| Available-for-sale financial assets | | 374,117 | 216,256 | 221,557 |
| Other long-term assets | 25 | 1,558,022 | 1,077,036 | 980,434 |
| Derivative financial instruments | 40 | 67,709 | – | 4,365 |
| | | 99,748,463 | 91,613,290 | 81,494,844 |
| **Current assets** | | | | |
| Flight equipment spare parts | 26 | 1,963,614 | 1,794,447 | 1,270,586 |
| Trade receivables | 27 | 2,913,829 | 3,601,021 | 2,462,623 |
| Prepayments and other receivables | 28 | 10,676,890 | 6,908,992 | 3,647,648 |
| Derivative financial instruments | 40 | – | 18,074 | – |
| Restricted bank deposits and short-term bank deposits | 29 | 212,938 | 109,543 | 360,168 |
| Cash and cash equivalents | 30 | 1,029,514 | 617,422 | 852,012 |
| Assets classified as held for sale | 44 | – | – | 482,313 |
| | | 16,796,785 | 13,049,499 | 9,075,350 |
| **Current liabilities** | | | | |
| Sales in advance of carriage | | 3,429,395 | 2,808,175 | 2,817,980 |
| Trade and bills payable | 31 | 7,169,440 | 7,558,342 | 3,480,109 |
| Other payables and accruals | 32 | 15,256,916 | 11,087,271 | 10,661,352 |
| Current portion of obligations under finance leases | 33 | 2,033,158 | 1,978,018 | 2,010,988 |
| Current portion of borrowings | 34 | 19,944,738 | 20,335,797 | 14,830,480 |
| Income tax payable | | 1,528 | 1,528 | 25 |
| Current portion of provision for return condition checks for aircraft under operating leases | 35 | 641,869 | 88,081 | 174,151 |
| Derivative financial instruments | 40 | 3,386 | 35,813 | 51,063 |
| | | 48,480,430 | 43,893,025 | 34,026,148 |
| **Net current liabilities** | | (31,683,645) | (30,843,526) | (24,950,798) |
| **Total assets less current liabilities** | | 68,064,818 | 60,769,764 | 56,544,046 |

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 Restated* | 1 January 2012 RMB'000 Restated* |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Obligations under finance leases | 33 | 14,193,492 | 15,498,192 | 14,123,184 |
| Borrowings | 34 | 19,188,715 | 15,087,334 | 15,184,868 |
| Provision for return condition checks for aircraft under operating leases | 35 | 1,381,795 | 1,674,553 | 1,546,944 |
| Other long-term liabilities | 36 | 1,154,171 | 962,719 | 1,331,811 |
| Post-retirement benefit obligations | 38 | 4,466,335 | 4,996,694 | 4,964,389 |
| Derivative financial instruments | 40 | 124,194 | 304,338 | 281,921 |
| | | 40,508,702 | 38,523,830 | 37,433,117 |
| **Net asset** | | 27,556,116 | 22,245,934 | 19,110,929 |
| **Equity** | | | | |
| – Share capital | 42 | 12,674,269 | 11,276,539 | 11,276,539 |
| – Reserves | 43 | 14,881,847 | 10,969,395 | 7,834,390 |
| **Total equity** | | 27,556,116 | 22,245,934 | 19,110,929 |

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer to Note 2(a)(ii).

The notes on page 84 to 169 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 26 March 2014 and were signed on its behalf.

**Liu Shaoyong**
*Director*

**Ma Xulun**
*Director*

# Consolidated Statement of Cash Flows



(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 45(a) | 11,120,494 | 12,822,835 |
| Income tax paid | | (314,016) | (205,476) |
| **Net cash inflow from operating activities** | | 10,806,478 | 12,617,359 |
| **Cash flows from investing activities** | | | |
| Additions of property, plant and equipment | | (1,822,056) | (6,148,139) |
| Advanced payments on acquisition of aircraft | 21 | (17,261,022) | (7,328,529) |
| Acquisition of cargo business of Great Wall Airlines Co., Ltd. ("Great Wall Airlines") netting of cash acquired | | – | (87,316) |
| Proceeds from disposal of assets classified as held for sale | | – | 209,586 |
| Proceeds from disposal of property, plant and equipment | | 555,752 | 181,246 |
| Proceeds of short-term deposits with original maturity over three months | | 1,491,654 | 958,489 |
| Capital injections in associates | | (236,725) | – |
| Acquisition of a subsidiary | | (11,876) | – |
| Purchase of investment in available-for-sale financial assets | | (47,085) | – |
| Interest received | | 195,760 | 215,789 |
| Dividends received | | 95,672 | 112,446 |
| Proceeds from disposal of interest in an associate | | 12,365 | 2,439 |
| Proceeds from disposal of interests in available-for-sale financial assets | | – | 94,890 |
| **Net cash outflow from investing activities** | | (17,027,561) | (11,789,099) |

## Consolidated Statement of Cash Flows

(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2013



| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 3,572,391 | – |
| Proceeds from draw down of short-term bank loans | | 15,634,644 | 23,101,136 |
| Repayments of short-term debts | | (4,000,000) | – |
| Repayments of short-term bank loans | | (15,823,469) | (25,619,898) |
| Proceeds from issuance of short-term debentures and bonds | | 4,000,000 | 4,000,000 |
| Proceeds from issuance of long-term debentures and bonds | | 6,985,406 | – |
| Proceeds from government grants | | 13,095 | – |
| Proceeds from draw down of long-term bank loans | | 8,957,687 | 10,887,474 |
| Repayments of long-term bank loans | | (9,792,367) | (8,352,313) |
| Principal repayments of finance lease obligations | | (2,447,560) | (4,094,636) |
| Receipts of restricted bank deposits | | – | 236,475 |
| Interest paid | | (1,692,806) | (1,936,842) |
| Capital contribution from non-controlling interests of subsidiaries | | 406,000 | 453,850 |
| Acquisition of non-controlling interests in subsidiaries | | (14,893) | (670,956) |
| Dividends paid to non-controlling interests of subsidiaries | | (68,481) | (178,580) |
| **Net cash inflow/(outflow) from financing activities** | | 5,729,647 | (2,174,290) |
| **Net decrease in cash and cash equivalents** | | (491,436) | (1,346,030) |
| Cash and cash equivalents at beginning of year | | 2,511,696 | 3,860,973 |
| Effect of foreign exchange rate changes | | (25,282) | (3,247) |
| **Cash and cash equivalents at 31 December** | 30 | 1,994,978 | 2,511,696 |

The notes on page 84 to 169 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity



(Prepared in accordance with International Financial Reporting Standards)
For the year ended 31 December 2013

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| Balance at 1 January 2012 | | | | | | |
| As previously reported | 11,276,539 | 17,229,128 | (8,379,775) | 20,125,892 | 1,679,215 | 21,805,107 |
| Prior year adjustments | – | (3,334,505) | 340,967 | (2,993,538) | (85,577) | (3,079,115) |
| As restated* | 11,276,539 | 13,894,623 | (8,038,808) | 17,132,354 | 1,593,638 | 18,725,992 |
| Total comprehensive income /(loss) for the year (restated*) | – | 149,864 | 3,071,514 | 3,221,378 | (160,297) | 3,061,081 |
| – Profit/(loss) for the year (restated*) | – | – | 3,071,514 | 3,071,514 | (142,333) | 2,929,181 |
| – Other comprehensive income/(loss) (restated*) | – | 149,864 | – | 149,864 | (17,964) | 131,900 |
| Capital contribution by non-controlling interests in subsidiaries | – | – | – | – | 453,850 | 453,850 |
| Dividends paid to non-controlling interests in subsidiaries | – | – | – | – | (178,580) | (178,580) |
| Acquisition of non-controlling interests in subsidiaries | – | (490,151) | – | (490,151) | (180,806) | (670,957) |
| Others | – | 343,786 | – | 343,786 | – | 343,786 |
| Balance at 31 December 2012 (Restated*) | 11,276,539 | 13,898,122 | (4,967,294) | 20,207,367 | 1,527,805 | 21,735,172 |
| **Balance at 1 January 2013** | **11,276,539** | **13,898,122** | **(4,967,294)** | **20,207,367** | **1,527,805** | **21,735,172** |
| **Total comprehensive income for the year** | **–** | **807,563** | **2,372,571** | **3,180,134** | **(220,250)** | **2,959,884** |
| **– Profit/(loss) for the year** | **–** | **–** | **2,372,571** | **2,372,571** | **(279,752)** | **2,092,819** |
| **– Other comprehensive income** | **–** | **807,563** | **–** | **807,563** | **59,502** | **867,065** |
| **Capital contribution by non-controlling interests in subsidiaries** | **–** | **–** | **–** | **–** | **406,000** | **406,000** |
| **Dividends paid to non-controlling interests in subsidiaries** | **–** | **–** | **–** | **–** | **(18,720)** | **(18,720)** |
| **Acquisition of non-controlling interests in subsidiaries** | **–** | **–** | **–** | **–** | **(14,893)** | **(14,893)** |
| **Issue of shares** | **1,397,730** | **2,174,661** | **–** | **3,572,391** | **–** | **3,572,391** |
| **Others** | **–** | **(57,576)** | **–** | **(57,576)** | **–** | **(57,576)** |
| **Balance at 31 December 2013** | **12,674,269** | **16,822,770** | **(2,594,723)** | **26,902,316** | **1,679,942** | **28,582,258** |

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer to Note 2(a)(ii).

## 1. Corporate Information

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

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

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

These financial statements were approved for issue by the Company's Board of Directors (the "Board") on 26 March 2014.

## 2. Summary of Significant Accounting Policies

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

### (a) Basis of preparation

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

#### (i) Going concern

As at 31 December 2013, the Group's accumulated losses were approximately RMB2.59 billion and its current liabilities exceeded its current assets by approximately RMB40.47 billion. In preparing the financial statements, the Board conducts 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 2013, the Group had total unutilised credit facility amounting to approximately RMB37.60 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.

## 2. Summary of Significant Accounting Policies (continued)

### (a) Basis of preparation (continued)

**(ii) New and amended standards adopted by the Group**

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| IFRS 7 Amendments | Amendments to IFRS 7 Financial Instruments: *Disclosures – Offsetting Financial Assets and Financial Liabilities* |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 11 | Joint Arrangements |
| IFRS 12 | Disclosure of Interests in Other Entities |
| IFRS 10, IFRS 11 and IFRS 12 Amendments | Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transaction Guidance* |
| IFRS 13 | Fair Value Measurement |
| IAS 1 Amendments | Amendments to IAS 1 Presentation of Financial Statements – *Presentation of Items of Other Comprehensive Income* |
| IAS 19 (2011) | Employee Benefits |
| IAS 27 (2011) | Separate Financial Statements |
| IAS 28 (2011) | Investments in Associates and Joint Ventures |
| IAS 36 Amendments | Amendments to IAS 36 Impairment of Assets – Recoverable Amount *Disclosures for Non-Financial Assets (early adopted)* |
| Annual Improvements 2009-2011 Cycle | Amendments to a number of IFRSs issued in June 2012 |

Other than as further explained below regarding the impact of amendments to IAS 1 and IAS 19 (2011), and certain amendments included in Annual Improvements 2009–2011 Cycle (include other standards as appropriate), the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

- The IAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of profit or loss and other comprehensive income has been restated to reflect the changes.

- IAS 19 (2011) changes the accounting for defined benefit plans. The revised standard removes the choice to defer the recognition of actuarial gains and losses. All actuarial gains and losses are required to be recognised immediately in OCI. The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under IAS 19 (2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. Prior to the adoption of IAS 19 (2011), the Group elected to recognise actuarial gains or losses as income or expense over the expected average remaining service periods of the employees participating in the defined benefit plan when the net cumulative unrecognised actuarial gains or losses for the plan at the end of the previous period exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. Upon the adoption of IAS 19 (2011), all actuarial gains and losses are recognised in OCI immediately. As a result, all deferred actuarial gains and losses as at 1 January 2012 and 31 December 2012 were recognised in OCI and the actuarial gains and losses recognised in the profit or loss for the year ended 31 December 2012 was adjusted to OCI. In addition, the interest cost and expected return on plan assets recorded in 2012 has been replaced by a net interest amount.

  Furthermore, upon the adoption of IAS 19 (2011), all past service costs are recognised at the earlier of when an amendment/curtailment occurs and when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period.

## 2. Summary of Significant Accounting Policies (continued)

### (a) Basis of preparation (continued)

**(ii) New and amended standards adopted by the Group (continued)**

Other than the changes to the accounting for defined benefit plans, IAS 19 (2011) also changes the timing of recognition for termination benefits and the classification of short term employee benefits. The revised standard requires termination benefits outside of a wider restructuring to be recognised only when the offer becomes legally binding and cannot be withdrawn. Under the revised standard, the distinction between short term and other long term employee benefits is now based on the expected timing of settlement rather than employee entitlement.

The effects of the changes to the accounting for the Group's defined benefit plan are summarised below:

Impact on the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Decrease in wages, salaries and benefits | 227,284 | 124,184 |
| Increase in profit before tax | 227,284 | 124,184 |
| Increase in income tax expense | (16,960) | (2,606) |
| Increase in profit for the year | 210,324 | 121,578 |
| Increase in remeasurement gain on post-retirement benefit obligations | 426,170 | 127,878 |
| Decrease in income tax effect | 41,306 | 11,434 |
| Increase in other comprehensive income for the year, net of tax | 467,476 | 139,312 |
| Increase in total comprehensive income for the year | 677,800 | 260,890 |
| Increase in profit for the year attributable to: | | |
| Equity shareholders of the Company | 193,747 | 117,869 |
| Non-controlling interests | 16,577 | 3,709 |
| | 210,324 | 121,578 |
| Increase in total comprehensive income attributable to: | | |
| Equity shareholders of the Company | 608,864 | 275,107 |
| Non-controlling interests | 68,936 | (14,217) |
| | 677,800 | 260,890 |
| Increase in earnings per share attributable to equity shareholders of the Company: | | |
| Basic & diluted | 1.60 cents | 1.05 cents |

## 2. Summary of Significant Accounting Policies (continued)

### (a) Basis of preparation (continued)

**(ii) New and amended standards adopted by the Group (continued)**

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Impact on the consolidated statement of financial position at 31 December: | | |
| Increase in deferred tax assets | 90,130 | 70,097 |
| Increase in non-current assets | 90,130 | 70,097 |
| Increase in post-retirement benefit obligations | 2,234,868 | 2,888,323 |
| Increase in non-current liabilities | 2,234,868 | 2,888,323 |
| Decrease in net assets and total equity | 2,144,738 | 2,818,226 |

Impact on the consolidated statement of financial position at 1 January:

| | 2012<br>RMB'000 |
|---|---|
| Increase in deferred tax assets | 61,270 |
| Increase in non-current assets | 61,270 |
| Increase in post-retirement benefit obligations | 3,140,385 |
| Increase in non-current liabilities | 3,140,385 |
| Decrease in net assets and total equity | 3,079,115 |

**(iii) Issued but not yet effective International Financial Reporting Standards**

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| IFRS 9 | *Financial Instruments* |
| IFRS 9, IFRS 7 and IAS 39 Amendments | *Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39* |
| IFRS 10, IFRS 12 and IAS 27 (2011) Amendments | Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – *Investment Entities* |
| IAS 19 Amendments | Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* |
| IAS 32 Amendments | Amendments to IAS 32 Financial Instruments: *Presentation – Offsetting Financial Assets and Financial Liabilities* |
| IAS 39 Amendments | Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* |
| IFRIC-Int 21 | *Levies* |

## 2. Summary of Significant Accounting Policies (continued)

### (a) Basis of preparation (continued)

**(iii) Issued but not yet effective International Financial Reporting Standards (continued)**

Further information about those IFRSs is as follows:

- IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

- In November 2010, the International Accounting Standard Board ("IASB") issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

- In December 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

- IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in December 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

- Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

- The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

## 2. Summary of Significant Accounting Policies (continued)

### (b) Consolidation

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

**(i) Subsidiaries**

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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 Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment.

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.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(ii) Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

## 2. Summary of Significant Accounting Policies (continued)

### (b) Consolidation (continued)

**(iii) Disposal of subsidiaries**

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**(iv) 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.

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.

The results of associates and joint ventures are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

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.

### (c) 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.

## 2. Summary of Significant Accounting Policies (continued)

### (d) Foreign currency translation

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit 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 the profit or loss within 'finance income' or 'finance costs'.

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

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

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

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.

**(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 income are recognised when the service 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 the 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.

## 2. Summary of Significant Accounting Policies (continued)

### (f) Government grants

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

Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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

### (g) Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Group has obligations to fulfill certain return conditions under the Group has obligations to fulfill certain return conditions under the checks is made on a straight line basis over the term of the leases.

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

All other repairs and maintenance costs are charged to the profit or loss as and when incurred.

### (h) Interest income

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

### (i) 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.

### (j) Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent 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 period date in the jurisdictions where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

## 2. Summary of Significant Accounting Policies (continued)

### (j) Current and deferred tax (continued)

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and 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.

### (k) Intangible assets

**(i) Goodwill**

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

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

**(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 expense when incurred.

### (l) Deferred pilot recruitment costs

Deferred pilot recruitment costs represent the cost bore 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 five years, starting from when the pilot joins the Group.

### (m) Property, plant and equipment

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

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

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

## 2. Summary of Significant Accounting Policies (continued)

### (m) Property, plant and equipment (continued)

Except for components related to overhaul costs, the depreciation method of which has been described in the preceding paragraph, other depreciation of property, plant and equipment is calculated using the straight-line method to write down their costs 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 | 15 to 45 years |
| Other property, plant and equipment | 5 to 20 years |

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

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

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

### (n) Impairment of investments in subsidiaries, associates, joint ventures and non-financial assets

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

### (o) Assets classified as held for sale

Non-current assets 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 and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and are classified as assets held for sale.

### (p) 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.

### (q) Advanced payments on acquisition of aircraft

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

### (r) Flight equipment spare parts

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

## 2. Summary of Significant Accounting Policies (continued)

### (s) Trade receivables

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

### (t) Cash and cash equivalents

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

### (u) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (v) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period date in which case such borrowings are classified as non-current liabilities.

### (w) Provisions

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

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

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

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.

## 2. Summary of Significant Accounting Policies (continued)

### (x) Leases

#### (i) A Group company is the lessee

*Finance leases*

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

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the 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 the 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 the 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) A Group company is the 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.

### (y) Retirement benefits

The Group participates in schemes regarding pension and medical benefits for employees organised by the municipal governments of the relevant provinces. The contributions to the schemes are charged to profit or loss as and when incurred.

In addition, the Group provides retirees with certain post-retirement benefits including retirement subsidies, transportation subsidies, social function activity subsidies as well as other welfare. Except that Shanghai Airlines Co., Ltd. maintained a separately administrated fund, the remaining 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 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 retained profits 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

## 2. Summary of Significant Accounting Policies (continued)

### (y) Retirement benefits (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 obligations under "Wages, salaries and benefits" in the consolidated statement of profit or loss and other comprehensive income:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Pursuant to relevant requirements from State-owned Assets Supervision and Administration Commission of the State Council, the People's Republic of China, the Group is considering the launch of a new retirement benefit plan in the new future. In anticipation of the transition from the current post-retirement benefit plan to the new retirement benefit plan, a curtailment on the current post-retirement benefit plan was structured during the year.

### (z) Derivative financial instruments

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

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

Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments and any unrealised gains or losses, being changes in fair value of the derivatives, are recognised in the profit or loss immediately. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

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

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

(ii) the ineffective portion of any change in fair value is recognised in the profit or loss immediately.

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

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

## 2. Summary of Significant Accounting Policies (continued)

### (aa) Available-for-sale financial assets

Investments in securities other than subsidiaries, associates and joint ventures, being held for non-trading purposes, are classified as available-for-sale financial assets and are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. At each date, the fair value is remeasured, with any resulting gain or loss being recognised directly in other comprehensive income, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the 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 period date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the securities below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in the profit or loss, is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss.

### (ab) Dividend distribution

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

### (ac) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 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 minimised potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage risk exposures whenever management consider 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 exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments were approved by the Board.

#### (i) 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.

# 3. Financial Risk Management (Continued)

## (a) Financial risk factors (continued)

### (i) Foreign currency risk (continued)

RMB is not a freely convertible currency and is regulated by the PRC government. Limitation on foreign exchange transaction imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

In addition, fluctuations in 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 option contracts to manage part of these foreign currency risks. Details of foreign currency forward contracts are disclosed in Note 40(b) to the financial statements.

The following table details the Group's and the Company's exposure at the reporting dates to major currency risk:

| | 2013 (Group) | | |
|---|---|---|---|
| | USD<br>RMB'000 | Euro<br>RMB'000 | JPY<br>RMB'000 |
| Trade and other receivables | 713,514 | 158,503 | 52,198 |
| Restricted bank deposits and short-term bank deposits | 180,967 | – | – |
| Cash and cash equivalents | 280,800 | 31,840 | 22,036 |
| Deposits relating to aircraft under operating leases | 667,584 | – | – |
| Trade and other payables | (901,750) | (84) | (4,251) |
| Obligations under finance leases | (20,540,547) | – | (474,999) |
| Borrowings | (35,214,340) | – | – |
| Currency derivatives at notional value | 233,700 | – | – |
| Net exposure in the consolidated statement of financial position | (54,580,072) | 190,259 | (405,016) |

| | 2012 (Group) | | |
|---|---|---|---|
| | USD<br>RMB'000 | Euro<br>RMB'000 | JPY<br>RMB'000 |
| Trade and other receivables | 1,259,043 | 156,354 | 161,020 |
| Restricted bank deposits and short-term bank deposits | 16,082 | 9,818 | 39,724 |
| Cash and cash equivalents | 372,387 | 38,175 | 30,451 |
| Deposits relating to aircraft under operating leases | 562,199 | – | – |
| Trade and other payables | (248,604) | (166) | (3,355) |
| Obligations under finance leases | (18,751,982) | – | (667,351) |
| Borrowings | (31,605,345) | – | (303,433) |
| Currency derivatives at notional value | 364,559 | – | – |
| Net exposure in the consolidated statement of financial position | (48,031,661) | 204,181 | (742,944) |

# 3. Financial Risk Management (Continued)

## (a) Financial risk factors (continued)

### (i) Foreign currency risk (continued)

| | 2013 (Company) | | |
|---|---|---|---|
| | USD RMB'000 | Euro RMB'000 | JPY RMB'000 |
| Trade and other receivables | 879,341 | 57,997 | 52,177 |
| Restricted bank deposits and short-term bank deposits | 180,967 | – | – |
| Cash and cash equivalents | 219,700 | 29,088 | 21,753 |
| Deposits relating to aircraft under operating leases | 266,386 | – | – |
| Trade and other payables | (900,415) | (84) | (4,251) |
| Obligations under finance leases | (14,142,918) | – | (474,999) |
| Borrowings | (28,476,152) | – | – |
| Currency derivatives at notional value | 233,700 | – | – |
| Net exposure in the statement of financial position | (41,739,391) | 87,001 | 405,320 |

| | 2012 (Company) | | |
|---|---|---|---|
| | USD RMB'000 | Euro RMB'000 | JPY RMB'000 |
| Trade and other receivables | 1,133,769 | 60,826 | 161,020 |
| Restricted bank deposits and short-term bank deposits | 16,082 | 9,818 | 39,724 |
| Cash and cash equivalents | 263,523 | 35,431 | 30,268 |
| Deposits relating to aircraft under operating leases | 251,411 | – | – |
| Trade and other payables | (215,474) | – | (254) |
| Obligations under finance leases | (14,733,182) | – | (667,351) |
| Borrowings | (25,176,398) | – | (303,433) |
| Currency derivatives at notional value | 364,559 | – | – |
| Net exposure in the statement of financial position | (38,095,710) | 106,075 | (740,026) |

## 3. Financial Risk Management (Continued)

### (a) Financial risk factors (continued)

**(i) Foreign currency risk (continued)**

The following tables indicate the approximate change in the Group's and the Company's statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity in response to a 1% appreciation of the RMB against the following major currencies at the reporting period dates.

| | Group | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Effect on profit or loss RMB'000 | Effect on other components of equity RMB'000 | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 |
| US dollars | 548,138 | 2,337 | 483,962 | 988 |
| Euro | (1,903) | – | (2,042) | – |
| Japanese Yen | 4,050 | – | 7,429 | – |

| | Company | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Effect on profit or loss RMB'000 | Effect on other components of equity RMB'000 | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 |
| US dollars | 314,798 | 2,337 | 384,603 | 988 |
| Euro | (653) | – | (1,061) | – |
| Japanese Yen | 3,040 | – | 7,400 | – |

**(ii) 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 new borrowings and current borrowings 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 by the Group and interest rate swaps are disclosed in Notes 34 and 40(a) to the financial statements.

# 3. Financial Risk Management (Continued)

## (a) Financial risk factors (continued)

### (ii) Interest rate risk (continued)

The following tables detail the interest rate profiles of the Group's and the Company's interest-bearing financial instruments at the reporting period date:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Floating rate instruments** | | | | |
| Cash and cash equivalents | **1,994,978** | 2,503,079 | **1,029,514** | 611,890 |
| Restricted bank deposits and short-term bank deposits | **383,063** | 1,726,251 | **212,938** | 109,543 |
| Borrowings | **(36,237,597)** | (35,256,709) | **(30,026,152)** | (28,516,031) |
| Obligation under finance leases | **(23,135,148)** | (21,857,978) | **(16,226,649)** | (17,476,210) |
| | **(56,994,704)** | (52,885,357) | **(45,010,349)** | (45,270,808) |
| Interest rate swap at notional amount | **4,971,899** | 5,598,774 | **4,971,899** | 5,598,774 |
| | **(52,022,805)** | (47,286,583) | **(40,038,450)** | (39,672,034) |

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Fixed rate instruments** | | | | |
| Borrowings | **(14,362,833)** | (10,479,409) | **(9,107,301)** | (6,907,100) |
| Interest rate swap at notional amount | **173,080** | 240,307 | **173,080** | 240,307 |
| | **(14,189,753)** | (10,239,102) | **(8,934,221)** | (6,666,793) |

The following table indicates the approximate change in the Group's profit and loss and other components of equity, taking into the consideration of the interest rate swap, if interest rate had been 25 basis points higher with all other variables held constant

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Effect on profit and loss RMB'000** | **Effect on other components of equity RMB'000** | Effect on profit and loss RMB'000 | Effect on other components of equity RMB'000 |
| Floating rate instruments | **(106,865)** | **12,430** | (122,532) | 13,997 |

# 3. Financial Risk Management (Continued)

## (a) Financial risk factors (continued)

**(iii) 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 accounted for 34% of the Group's operating expenses (2012: 36%).

As at 31 December 2013, the Group had no open crude oil option contracts, and all the contracts signed in past years had been settled before 31 December 2013.

For the year ended 31 December 2013, if fuel price had been 5% higher/lower with all other variables held constant, the Group's fuel cost would have been RMB1,534 million higher/lower.

**(iv) 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 RMB995 million as at 31 December 2013 (2012: approximately RMB812 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)). The management does not expect any loss to arise from non-performance by these banks and the financial institution.

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

**(v) Liquidity risk**

The Group's primary cash requirements have been for 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 bank loans (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 2013, the Group's net current liabilities amounted to RMB40,472 million (2012: RMB35,948 million). For the year ended 31 December 2013, the Group recorded a net cash inflow from operating activities of RMB10,806 million (2012: inflow RMB12,617 million), a net cash outflow from investing activities and financing activities of RMB11,298 million (2012: outflow RMB13,963 million), and a decrease in cash and cash equivalents of RMB491 million (2012: decrease of RMB1,349 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 PRC banks for financing future capital commitments and for working capital purposes (see Note 2(a)).

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

# 3. Financial Risk Management (Continued)

## (a) Financial risk factors (continued)

### (v) Liquidity risk (continued)

**Group**

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **At 31 December 2013** | | | | |
| Borrowings | 24,646,045 | 7,298,641 | 11,503,829 | 12,336,447 |
| Derivative financial instruments | 3,386 | – | 118,197 | 5,997 |
| Obligations under finance leases | 3,446,098 | 3,374,964 | 9,751,595 | 8,956,378 |
| Trade and other payables | 15,758,010 | – | – | – |
| **Total** | 43,853,539 | 10,673,605 | 21,373,621 | 21,298,822 |

**Group**

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| At 31 December 2012 | | | | |
| Borrowings | 23,690,528 | 7,780,344 | 8,846,834 | 8,736,557 |
| Derivative financial instruments | 504 | – | 122,751 | 216,895 |
| Obligations under finance leases | 3,004,452 | 3,059,744 | 8,685,669 | 9,027,940 |
| Trade and other payables | 19,331,550 | – | – | – |
| Total | 46,027,034 | 10,840,088 | 17,655,254 | 17,981,392 |

## 3. Financial Risk Management (Continued)

### (a) Financial risk factors (continued)

**(v) Liquidity risk (continued)**

**Company**

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **At 31 December 2013** | | | | |
| Borrowings | 20,898,927 | 6,154,230 | 6,181,369 | 10,046,532 |
| Derivative financial instruments | 3,386 | – | 118,197 | 5,997 |
| Obligations under finance leases | 2,342,089 | 2,281,941 | 5,913,950 | 7,156,863 |
| Trade and other payables | 19,029,808 | – | – | – |
| **Total** | 42,274,210 | 8,436,171 | 12,213,516 | 17,209,392 |

**Company**

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| At 31 December 2012 | | | | |
| Borrowings | 21,049,778 | 4,274,259 | 6,251,534 | 6,315,543 |
| Derivative financial instruments | 504 | – | 122,751 | 216,895 |
| Obligations under finance leases | 2,306,694 | 2,348,170 | 6,776,545 | 7,707,677 |
| Trade and other payables | 18,645,613 | – | – | – |
| Total | 42,002,589 | 6,622,429 | 13,150,830 | 14,240,115 |

### (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.

## 3. Financial Risk Management (Continued)

### (b) Capital risk management (continued)

The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. The debt ratio at 31 December 2013 and 2012 were as follows:

| | **2013 RMB'000** | 2012 RMB'000 Restated |
|---|---|---|
| Total liabilities | **111,485,790** | 102,153,488 |
| Total assets | **140,068,048** | 123,888,660 |
| Debt ratio | **0.80** | 0.82 |

### (c) Fair value estimation of financial assets and liabilities

**(i) Financial instruments not measured at fair value**

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

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Carrying amounts** | **Fair values** | Carrying amounts | Fair values |
| **Financial assets** | | | | |
| Deposits relating to aircraft held under operating leases included in other long term assets | **669,560** | **659,000** | 807,543 | 722,000 |
| **Financial liabilities** | | | | |
| Long-term borrowings | **29,189,641** | **29,203,602** | 30,355,874 | 30,471,554 |
| Obligations under finance leases | **23,135,148** | **23,835,517** | 21,857,978 | 22,543,817 |
| | **52,324,789** | **53,039,119** | 52,213,852 | 53,015,371 |

Management assessed cash and cash equivalents, restricted bank deposits and short-term bank deposits, trade receivables, trade and bills payable, short-term debentures and short-term guaranteed bonds. Given their short term nature, their carrying amounts approximated to the fair values.

The fair values of the deposits relating to aircraft held under operating leases, 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.

**(ii) 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 and interest rate swaps, 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 2013, 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.

# 3. Financial Risk Management (Continued)

## (c) Fair value estimation of financial assets and liabilities (continued)

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

**Group**

| As at 31 December 2013 | Fair value measurement using<br>Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Assets | | | | |
| Derivative financial instruments | | | | |
| – Forward foreign exchange contracts (Note 40(b)) | – | 12,807 | – | 12,807 |
| – Interest rate swaps (Note 40(a)) | – | 54,902 | – | 54,902 |
| Available for sale financial assets | 177,036 | – | – | 177,036 |
| Total | 177,036 | 67,709 | – | 244,745 |
| Liabilities | | | | |
| Derivative financial Instruments | | | | |
| – Interest rate swaps (Note 40(a)) | – | 124,194 | – | 124,194 |
| – Forward foreign exchange contracts (Note 40(b)) | – | 3,386 | – | 3,386 |
| **Total** | – | 127,580 | – | 127,580 |

**Group**

| As at 31 December 2012 | Fair value measurement using<br>Quoted prices in active markets Level 1 RMB'000 | Significant observable inputs Level 2 RMB'000 | Significant unobservable inputs Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Assets | | | | |
| Derivative financial instruments | | | | |
| – Forward foreign exchange contracts (Note 40(b)) | – | 18,074 | – | 18,074 |
| Available for sale financial assets | 1,955 | – | 232,735 | 234,690 |
| Total | 1,955 | 18,074 | 232,735 | 252,764 |
| Liabilities | | | | |
| Derivative financial Instruments | | | | |
| – Interest rate swaps (Note 40(a)) | – | 295,005 | – | 295,005 |
| – Forward foreign exchange contracts (Note 40(b)) | – | 45,146 | – | 45,146 |
| Total | – | 340,151 | – | 340,151 |

## 3. FINANCIAL RISK MANAGEMENT (continued)

### (c) Fair value estimation of financial assets and liabilities (continued)

**Company**

| As at 31 December 2013 | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Assets | | | | |
| Derivative financial Instruments | | | | |
| – Forward foreign exchange contracts (Note 40(b)) | – | 12,807 | – | 12,807 |
| – Interest rate swaps (Note 40(a)) | – | 54,902 | – | 54,902 |
| Available-for-sale financial assets | 12,900 | – | – | 12,900 |
| Total | 12,900 | 67,709 | – | 80,609 |
| Liabilities | | | | |
| Derivative financial Instruments | | | | |
| – Interest rate swaps (Note 40(a)) | – | 124,194 | – | 124,194 |
| – Forward foreign exchange contracts (Note 40(b)) | – | 3,386 | – | 3,386 |
| **Total** | – | 127,580 | – | 127,580 |

## 3. FINANCIAL RISK MANAGEMENT (continued)

### (c) Fair value estimation of financial assets and liabilities (continued)

**Company**

| As at 31 December 2012 | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets Level 1 RMB'000 | Significant observable inputs Level 2 RMB'000 | Significant unobservable inputs Level 3 RMB'000 | Total RMB'000 |
| Assets | | | | |
| Derivative financial Instruments | | | | |
| – Forward foreign exchange contracts (Note 40(b)) | – | 18,074 | – | 18,074 |
| – Available-for-sale financial assets | – | – | 216,256 | 216,256 |
| Total | – | 18,074 | 216,256 | 234,330 |
| Liabilities | | | | |
| Derivative financial Instruments | | | | |
| – Interest rate swaps (Notes 40(a)) | – | 295,005 | – | 295,005 |
| – Forward foreign exchange contracts (Note 40 (b)) | – | 45,146 | – | 45,146 |
| Total | – | 340,151 | – | 340,151 |

The fair value of financial instruments traded in active markets was based on quoted market prices at the reporting period dates.

The fair values of hedging instruments and other derivative instruments were 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.

Available-for-sale financial assets are listed A share and listed H share stock investments.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### (a) Revenue recognition

The Group recognises traffic revenues in accordance with the accounting policy stated in Note 2(e) 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 recognizing revenue for any unused air tickets and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which affect the timing of revenue recognition.

The Group monitors sales in advance of carriage on a periodic basis and recognises the traffic revenue once the related transportation responsibility is eliminated. Based on result of the Group's enhanced monitoring of its international air traffic liabilities, it appeared the probability for the Group to render the international transportation services for the unused tickets of more than two years is remote. Consequently, the Group changed recognition of traffic revenue for unused tickets relating to international transportation services. Before the change, the Group recognises the traffic revenue for unused tickets from three years to two years. The change of accounting estimate is prospectively applied from 1 April 2013.

The change in the aforesaid accounting estimate had effects of increasing the traffic revenues by RMB64.73 million and RMB63.30 million for the Group and the Company, respectively, for the year ended 31 December 2013.

### (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 deferment of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilisation of these benefits 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 judgments or estimates are based on historical experience on returning similar airframe models, actual costs incurred and aircraft status. Different judgments or estimates could significantly affect the estimated provision for costs of return condition checks.

### (d) Retirement benefits

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognised over the 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(y) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employee's turnover rate. 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. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plan is disclosed in Note 38 to the financial statements.

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

### (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 Company's future operation plan for the aircraft and related spare parts. The net realizable 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 overhauls costs, timeframe between each overhaul, ratio of actual flying hours and estimated flying hours between overhauls. Different judgments or estimates could significantly affect the estimated depreciation charge and the results of operations.

Except for components related to airframe and 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(m) and Note 2(k) to the financial statements. The recoverable amount of cash generating units 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-kilometers yield level, load factor, aircraft utilisation rate and discount rates, etc.

## 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.

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Traffic revenues | **80,530,981** | 79,444,443 |
| – Passenger | **72,927,656** | 71,418,995 |
| – Cargo and mail | **7,603,325** | 8,025,448 |
| Tour operations income | **3,168,948** | 2,111,051 |
| Ground service income | **2,252,923** | 1,959,107 |
| Cargo handling income | **262,893** | 160,328 |
| Commission income | **92,507** | 96,418 |
| Others | **1,936,748** | 1,481,970 |
| | **88,245,000** | 85,253,317 |

Notes:

Before 1 January 2012, the major elements of the Group's revenues were subject to business tax levied at rates of 3% or 5%. The Group's revenues from the provision of international transportation services are exempted from business tax from 1 January 2010, pursuant to the notice of exemption of business tax on the provision of international transportation services (Cai Shui [2010] No. 8) jointly issued by the Ministry of Finance ("MoF") and the State Administration of Taxation ("SAT").

Pursuant to the notice of the pilot programme for the transformation of transportation and certain modern service industries in Shanghai from business tax ("BT") to Value Added Tax ("VAT") (Cai Shui [2011] No. 111) issued by MoF and SAT, traffic revenue of the Company and subsidiaries located in Shanghai and other revenues (including ground service income, cargo handling income, commission income and part of others) generated in Shanghai are subjected to VAT levied at rates of 11% or 6% from 1 January 2012, instead of BT.

Pursuant to the notice of the pilot programme for the transformation of transportation and certain modern service industries from BT to VAT in Beijing and other eight provinces/cities (Cai Shui [2012] No. 71) issued by MoF and SAT, traffic revenue and other revenues (including ground service income, cargo handling income, commission income and part of others) generated by subsidiaries located in Beijing and other eight provinces/cities scoped in the notice are subjected to VAT levied at rates of 11% or 6% with different effective date ranging from 1 September 2012 to 1 December 2012.

Pursuant to the notice of the pilot programme for the transformation of transportation and certain modern service industries from BT to VAT in all locations of China (Cai Shui [2013] No. 37) issued by MoF and SAT, traffic revenue and other revenues (including ground service income, cargo handling income, commission income and part of others) generated by all provinces/cities of China are subjected to VAT levied at rates of 11% or 6% from 1 August 2013, instead of BT.

## 6. OTHER OPERATING INCOME

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Other operating income** | | |
| – Subsidy income (Note) | **2,369,773** | 1,719,626 |
| – Gain on disposal of property, plant and equipment | **355,588** | 113,128 |
| | **2,725,361** | 1,832,754 |

Note:

Subsidy income represent (i) subsidies of RMB238 million (2012: RMB353 million) based on certain amount of tax paid granted by various local governments; and (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 2013 and 2012.

## 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 income.

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.

## 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 2013 were as follows:

| | Airline transportation operations RMB'000 | Other segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Reportable segment revenue from external customers | 84,247,756 | 3,761,480 | – | – | 88,009,236 |
| Inter-segment sales | – | 258,310 | (258,310) | – | – |
| Reportable segment revenue | 84,247,756 | 4,019,790 | (258,310) | – | 88,009,236 |
| Reportable segment profit before income tax | 2,043,647 | 108,866 | – | 68,053 | 2,220,566 |
| **Other segment information** | | | | | |
| Depreciation and amortisation | 8,290,653 | 244,025 | – | – | 8,534,678 |
| Impairment charge/(reversal) | 185,963 | (2,097) | – | – | 183,866 |
| Interest income | 99,474 | 48,637 | – | – | 148,111 |
| Finance costs | 1,368,043 | 180,579 | – | – | 1,548,622 |
| Capital expenditure | 24,755,607 | 309,886 | – | – | 25,065,493 |

The segment results for the year ended 31 December 2012 were as follows:

| | Airline transportation operations RMB'000 | Other segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Reportable segment revenue from external customers | 83,127,233 | 3,282,024 | – | – | 86,409,257 |
| Inter-segment sales | – | 261,631 | (261,631) | – | – |
| Reportable segment revenue | 83,127,233 | 3,543,655 | (261,631) | – | 86,409,257 |
| Reportable segment profit before income tax | 2,898,943 | 105,555 | – | 234,058 | 3,238,556 |
| **Other segment information** | | | | | |
| Depreciation and amortisation | 7,892,045 | 114,789 | – | – | 8,006,834 |
| Impairment (reversal)/charge | (20,881) | 954 | – | – | (19,927) |
| Interest income | 123,867 | 76,898 | – | – | 200,765 |
| Finance costs | 1,562,878 | 134,596 | – | – | 1,697,474 |
| Capital expenditure | 18,490,801 | 116,638 | – | – | 18,607,439 |

## 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 2013 and 31 December 2012 were as follows:

| | Airline transportation operations RMB'000 | Other segments RMB'000 | Elimination RMB'000 | Unallocated* RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | |
| Reportable segment assets | **133,310,613** | **7,239,423** | **(4,681,692)** | **1,908,169** | **137,776,513** |
| Reportable segment liabilities | **109,792,915** | **6,374,567** | **(4,681,692)** | **–** | **111,485,790** |
| At 31 December 2012 | | | | | |
| Reportable segment assets | 117,060,855 | 4,815,342 | (1,691,890) | 1,486,321 | 121,670,628 |
| Reportable segment liabilities | 100,281,349 | 3,636,937 | (1,691,890) | – | 102,226,396 |

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

### (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 areas 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.

| | Group | |
|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 |
| Domestic (the PRC, excluding Hong Kong, Macau and Taiwan) | **59,563,056** | 57,296,742 |
| Regional (Hong Kong, Macau and Taiwan) | **3,910,530** | 3,704,064 |
| International | **24,771,414** | 24,252,511 |
| Total | **88,245,000** | 85,253,317 |

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 areas and hence segment non-current assets and capital expenditure by geographic areas are not presented. Except the aircraft, most non-current assets (except financial instruments) are registered in the PRC.

## 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 | Group 2013 RMB'000 | Group 2012 RMB'000 Restated |
|---|---|---|---|
| **Revenue** | | | |
| Reportable segment revenue | | 88,009,236 | 86,409,257 |
| – Reclassification of business tax and expired sales in advance of carriage | (i) | 235,764 | (315,933) |
| – Adjustment of business combination under common control | | – | (840,007) |
| Consolidated revenue | | 88,245,000 | 85,253,317 |

| | Note | Group 2013 RMB'000 | Group 2012 RMB'000 Restated |
|---|---|---|---|
| **Profit before income tax** | | | |
| Reportable segment profit | | 2,220,566 | 3,238,556 |
| – Differences in depreciation charges for aircraft and engines due to different depreciation lives | (ii) | (3,466) | (21,958) |
| – Adjustments of business combination under common control | | – | (618) |
| – Others | | – | (79,392) |
| Consolidated profit before income tax | | 2,217,100 | 3,136,588 |

| | Note | Group 2013 RMB'000 | Group 2012 RMB'000 Restated |
|---|---|---|---|
| **Assets** | | | |
| Reportable segment assets | | 137,776,513 | 121,670,628 |
| – Differences in depreciation charges for aircraft and engines due to different depreciation lives | (ii) | 49,434 | 52,901 |
| – Difference in intangible asset arising from the acquisition of Shanghai Airlines | (iii) | 2,242,100 | 2,242,100 |
| – Adjustments of business combination under common control | | – | (76,969) |
| – Others | | 1 | – |
| Consolidated assets | | 140,068,048 | 123,888,660 |

## 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)

| | Group | |
|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000<br>Restated |
| **Liabilities** | | |
| Reportable segment liabilities | 111,485,790 | 102,226,396 |
| - Adjustments of business combination under common control | – | (72,908) |
| Consolidated liabilities | 111,485,790 | 102,153,488 |

Notes:

(i) The difference represents the different classification of business tax and expired sales in advance of carriage under PRC Accounting Standards and IFRS.

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

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

## 8. GAIN ON FAIR VALUE MOVEMENTS OF DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | |
|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 |
| Gain arising from fair value movements of derivative financial instruments | | |
| – Interest rate swap and forward foreign exchange contracts (Note 40(a)) | 16,262 | 15,755 |
| – Others | 2,076 | 9,076 |
| | 18,338 | 24,831 |

## 9. WAGES, SALARIES AND BENEFITS

| | Group | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 Restated |
| Wages, salaries, bonus and allowances | 10,488,942 | 9,375,882 |
| Employee welfare and benefits | 362,689 | 428,791 |
| Pension and medical insurance (Note 38(a) & (b)) | 1,483,000 | 1,262,017 |
| Post-retirement benefits (Note 38(c)) | 182,789 | 457,591 |
| Staff housing fund (Note 39(a)) | 718,484 | 607,336 |
| Staff housing allowances (Note 39(b)) | 217,880 | 171,241 |
| | 13,453,784 | 12,302,858 |

### (a) Emoluments of directors and supervisors

Details of the emoluments paid to the Company's directors and supervisors were as follows:

| | 2013 | | |
|---|---|---|---|
| | Salaries and Allowance RMB'000 | Bonus RMB'000 | Total RMB'000 |
| **Executive Directors** | | | |
| Liu Shaoyong* | – | – | – |
| Ma Xulun | 713 | – | 713 |
| Xu Zhao* | – | – | – |
| Gu Jiadan* | – | – | – |
| Li Yangmin | 639 | – | 639 |
| Tang Bing | 604 | – | 604 |
| Luo Zhuping** | 391 | – | 391 |
| **Independent non-executive Directors** | | | |
| Liu Keya | 120 | – | 120 |
| Wu Xiaogen | – | – | – |
| Ji Weidong | 120 | – | 120 |
| Shao Ruiqing | 120 | – | 120 |
| Li Ruoshan*** | 60 | – | 60 |
| Ma Weihua*** | 30 | – | 30 |
| **Supervisors** | | | |
| Yu Faming* | – | – | – |
| Xi Sheng* | – | – | – |
| Liu Jiashun | – | – | – |
| Feng Jinxiong | 422 | – | 422 |
| Yan Taisheng | 384 | – | 384 |
| Ba Shengji**&*** | 325 | – | 325 |
| **Total** | 3,928 | – | 3,928 |

## 9. WAGES, SALARIES AND BENEFITS (continued)

### (a) Emoluments of directors and supervisors (continued)

Details of the emoluments paid to the Company's directors and supervisors were as follows: (continued)

| | 2012 | | |
|---|---|---|---|
| | Salaries and Allowance RMB'000 | Bonus RMB'000 | Total RMB'000 |
| **Executive Directors** | | | |
| Liu Shaoyong* | – | – | – |
| Ma Xulun | 697 | – | 697 |
| Xu Zhao* | – | – | – |
| Gu Jiadan* | – | – | – |
| Li Yangmin | 625 | – | 625 |
| Tang Bing | 592 | – | 592 |
| Luo Zhuping | 402 | – | 402 |
| **Independent non-executive Directors** | | | |
| Liu Keya | 97 | – | 97 |
| Wu Xiaogen | – | – | – |
| Ji Weidong | 120 | – | 120 |
| Shao Ruiqing | 120 | – | 120 |
| **Supervisors** | | | |
| Yu Faming* | – | – | – |
| Xi Sheng* | – | – | – |
| Liu Jiashun | – | – | – |
| Feng Jinxiong | 396 | – | 396 |
| Yan Taisheng | 344 | – | 344 |
| **Total** | 3,393 | – | 3,393 |

* These directors and officials 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.

** These directors and officials of the Company retired or resigned during the year ended 31 December 2013.

*** These directors and officials of the Company were newly appointed during the year ended 31 December 2013.

During the year ended 31 December 2013, no directors and supervisors waived their emoluments (2012: Nil).

## 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 2013 (2012: Nil). The emoluments payable to the five highest paid individuals were as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Wages, salaries, bonus and allowances | **7,393** | 6,407 |

The emoluments fell within the following band:

| | Number of individuals | |
|---|---|---|
| | **2013** | 2012 |
| Nil to HK$2,000,000 | **4** | 5 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| | **5** | 5 |

During the year ended 31 December 2013, 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 (2012: Nil).

## 10. IMPAIRMENT CHARGE/(REVERSAL)

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Reversal of impairment charge on flight equipment spare parts | **(20,386)** | (103,337) |
| Impairment charges on assets classified as held for sale (Note (a)) | **50,039** | – |
| Impairment charges on property, plant and equipment | **14,801** | 89,870 |
| Impairment charges on other long-term assets (Note (b)) | **113,787** | – |
| Impairment charges on available-for-sale financial assets | **27,616** | – |
| | **185,857** | (13,467) |

Notes:

(a) In 2012, the Group entered into an agreement with a third party to dispose certain aircraft and related engines. The aircraft and engines to be sold in the next 12 months were recognised as assets classified as held for sale at 31 December 2013, and an impairment loss of approximately RMB50 million was made against those aircraft and engines by reference to the contracted selling price less estimated cost to sell (Note 44).

(b) An impairment loss of approximately RMB114 million was made against other long-term assets of a subsidiary for the year ended 31 December 2013 by reference to the projected future cash flows of respective cash-generating-unit ("CGU").

## 11. OPERATING PROFIT

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

| | Group | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Amortisation of intangible assets | 56,518 | 38,404 |
| Depreciation of property, plant and equipment | | |
| – owned | 5,914,571 | 5,073,307 |
| – leased (finance leases) | 2,203,189 | 2,397,541 |
| Amortisation of lease prepayments | 51,920 | 47,658 |
| Consumption of flight equipment spare parts | 755,120 | 747,268 |
| Reversal of impairment of trade and other receivables | (1,991) | (6,872) |
| Auditors' remuneration | 14,500 | 12,880 |

## 12. FINANCE INCOME

| | Group | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Exchange gains, net (Note) | 1,976,329 | 147,836 |
| Interest income | 148,111 | 200,765 |
| | 2,124,440 | 348,601 |

Note:

The exchange gain primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases.

## 13. FINANCE COSTS

| | Group | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Interest on bank borrowings | 1,189,803 | 1,359,644 |
| Interest relating to obligations under finance leases | 335,406 | 411,547 |
| Interest on bonds and debentures | 339,480 | 149,425 |
| Interest relating to bills payable | 74,601 | 73,855 |
| | 1,939,290 | 1,994,471 |
| Less: amounts capitalised into advanced payments on acquisition of aircraft (Note) | (384,865) | (296,997) |
| amounts capitalised into construction in progress (Note) | (5,803) | – |
| | 1,548,622 | 1,697,474 |

Note:

The average interest rate used for interest capitalisation was 2.75% per annum for the year ended 31 December 2013 (2012: 3.73%).

## 14. INCOME TAX EXPENSE

Income tax charged to the consolidated profit or loss was as follows:

| | Group | |
|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000<br>Restated |
| Provision for PRC income tax | 347,561 | 214,944 |
| Deferred taxation (Note 37) | (223,280) | (7,537) |
| | 124,281 | 207,407 |

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 income tax rate of 15% from 2011 to 2020 upon approval from tax authorities. In 2012, China Eastern Yunnan Airlines Co., Ltd. ("CEA Yunnan"), a subsidiary of the Group, obtained approval from tax authorities and enjoys the reduced tax rate of 15% from 1 January 2011.

The Company and subsidiaries except for those incorporated in Hong Kong, which are subject to Hong Kong corporate income tax rate of 16.5% (2012: 16.5%), are generally subject to the PRC standard corporate tax rate of 25% (2012: 25%).

Tax on the Group's consolidated profit or loss differed from the theoretical amount that would arise using the standard taxation rate of the Company as follows:

| | Group | |
|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000<br>Restated |
| Profit before income tax | 2,217,100 | 3,136,588 |
| Adjusted by: | | |
| Share of result of associates and joint ventures | (64,923) | (133,169) |
| | 2,152,177 | 3,003,419 |
| Tax calculated at the tax rate of 25% (2012: 25%) | 538,044 | 750,855 |
| Effect attributable to subsidiaries charged at tax rates of 15% or 16.5% (2012: 15% or 16.5%) | (41,660) | (48,669) |
| Expenses not deductible for tax purposes | 19,179 | 12,989 |
| Utilisation of previously unrecognised tax losses | (327,427) | (654,996) |
| Unrecognised tax losses for the year | 175,114 | 210,777 |
| Realisation of deductible temporary differences for the year | (238,969) | (63,549) |
| Tax charge | 124,281 | 207,407 |
| Effective tax rate | 5.61% | 6.61% |

The Group operates international flights to overseas destinations. There was no material overseas taxation for the year ended 31 December 2013 and 2012, as there are avoidance of double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

## 15. DIVIDENDS

The Board has not recommended any dividend for the year ended 31 December 2013 (2012: Nil).

## 16. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB674 million (2012: RMB2,767 million (restated)).

## 17. EARNINGS PER SHARE

The calculation of basic earnings per share was based on the profit attributable to equity shareholders of the Company of RMB2,373 million (2012: RMB3,072 million (restated)) and the weighted average number of shares of 12,091,881,000 (2012: 11,276,538,860) in issue during the year ended 31 December 2013. The Company had no potentially dilutive option or other instruments relating to the ordinary shares.

## 18. INTANGIBLE ASSETS

| | Group | | |
|---|---|---|---|
| | Goodwill (Note) RMB'000 | Computer software RMB'000 | Total RMB'000 |
| **Cost** | | | |
| At 1 January 2012 | 11,269,695 | 263,792 | 11,533,487 |
| Additions | – | 133,913 | 133,913 |
| At 31 December 2012 | 11,269,695 | 397,705 | 11,667,400 |
| At 1 January 2013 | **11,269,695** | **397,705** | **11,667,400** |
| Additions | **–** | **98,069** | **98,069** |
| Disposals | **–** | **(619)** | **(619)** |
| **At 31 December 2013** | **11,269,695** | **495,155** | **11,764,850** |
| **Accumulated amortisation** | | | |
| At 1 January 2012 | – | 179,897 | 179,897 |
| Charge for the year | – | 38,404 | 38,404 |
| At 31 December 2012 | – | 218,301 | 218,301 |
| At 1 January 2013 | **–** | **218,301** | **218,301** |
| Charge for the year | **–** | **56,518** | **56,518** |
| Disposals | **–** | **(76)** | **(76)** |
| **At 31 December 2013** | **–** | **274,743** | **274,743** |
| **Net book amount** | | | |
| At 31 December 2012 | 11,269,695 | 179,404 | 11,449,099 |
| **At 31 December 2013** | **11,269,695** | **220,412** | **11,490,107** |

## 18. INTANGIBLE ASSETS (continued)

| | Company | | |
|---|---|---|---|
| | Goodwill (Note) RMB'000 | Computer software RMB'000 | Total RMB'000 |
| **Cost** | | | |
| At 1 January 2012 | 11,269,695 | 202,937 | 11,472,632 |
| Additions | – | 122,762 | 122,762 |
| At 31 December 2012 | 11,269,695 | 325,699 | 11,595,394 |
| At 1 January 2013 | **11,269,695** | **325,699** | **11,595,394** |
| Additions | **–** | **87,553** | **87,553** |
| **At 31 December 2013** | **11,269,695** | **413,252** | **11,682,947** |
| **Accumulated amortisation** | | | |
| At 1 January 2012 | – | 129,258 | 129,258 |
| Charge for the year | – | 34,330 | 34,330 |
| At 31 December 2012 | – | 163,588 | 163,588 |
| At 1 January 2013 | **–** | **163,588** | **163,588** |
| Charge for the year | **–** | **50,087** | **50,087** |
| **At 31 December 2013** | **–** | **213,675** | **213,675** |
| **Net book amount** | | | |
| At 31 December 2012 | 11,269,695 | 162,111 | 11,431,806 |
| **At 31 December 2013** | **11,269,695** | **199,577** | **11,469,272** |

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 center. For the purpose of impairment assessment, goodwill was allocated to the airline transportation operations, the principal CGU that the Group operates and benefits from the acquisition.

The recoverable amount of the CGU is principally based on the Company's fair value, which was determined by reference to the observable quoted market price of the Company's shares less the costs of disposal. No impairment for the goodwill was required based on the Company's fair value as at the reporting period dates.

## 19. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Aircraft, engines and flight equipment | | | | | |
|---|---|---|---|---|---|---|
| | Owned RMB'000 | Held under finance leases RMB'000 | Buildings RMB'000 | Other property, plant and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
| **Cost** | | | | | | |
| At 1 January 2013 | 67,504,762 | 42,918,469 | 6,819,057 | 6,068,832 | 2,005,647 | 125,316,767 |
| Transfers from construction in progress | – | – | 661,783 | 93,320 | (755,103) | – |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 10,100,499 | 3,143,998 | – | – | – | 13,244,497 |
| Additions | 2,443,661 | 2,341,123 | 7,862 | 472,167 | 1,277,592 | 6,542,405 |
| Transfer to assets held for sale | (624,936) | – | – | – | – | (624,936) |
| Transfer to other long-term assets | – | – | – | – | (450,571) | (450,571) |
| Disposals | (2,752,665) | (735,723) | (3,041) | (199,088) | – | (3,690,517) |
| **At 31 December 2013** | 76,671,321 | 47,667,867 | 7,485,661 | 6,435,231 | 2,077,565 | 140,337,645 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2013 | 26,184,035 | 10,335,309 | 1,523,289 | 3,834,611 | – | 41,877,244 |
| Charge for the year | 5,270,670 | 2,203,189 | 246,269 | 397,632 | – | 8,117,760 |
| Transfer to assets classified as held for sale | (231,143) | – | – | – | – | (231,143) |
| Disposals | (2,365,298) | (676,161) | (208) | (102,714) | – | (3,144,381) |
| **At 31 December 2013** | 28,858,264 | 11,862,337 | 1,769,350 | 4,129,529 | – | 46,619,480 |
| **Impairment** | | | | | | |
| At 1 January 2013 | 790,846 | 107,770 | – | 550 | 21,596 | 920,762 |
| Charge for the year | 6,975 | – | – | 7,826 | – | 14,801 |
| **At 31 December 2013** | 797,821 | 107,770 | – | 8,376 | 21,596 | 935,563 |
| **Net book amount** | | | | | | |
| **At 31 December 2013** | 47,015,236 | 35,697,760 | 5,716,311 | 2,297,326 | 2,055,969 | 92,782,602 |
| At 1 January 2013 | 40,529,881 | 32,475,390 | 5,295,768 | 2,233,671 | 1,984,051 | 82,518,761 |

## 19. PROPERTY, PLANT AND EQUIPMENT (continued)

**Company**

| | Aircraft, engines and flight equipment | | | | | |
|---|---|---|---|---|---|---|
| | Owned RMB'000 | Held under finance leases RMB'000 | Buildings RMB'000 | Other property, plant and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
| **Cost** | | | | | | |
| At 1 January 2013 | 44,119,296 | 32,744,604 | 2,758,140 | 3,524,742 | 1,502,484 | 84,649,266 |
| Transfers from construction in progress | – | – | 645,223 | 52,091 | (697,314) | – |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 6,286,879 | 1,840,001 | – | – | – | 8,126,880 |
| Additions | 1,733,437 | 1,589,091 | – | 343,812 | 664,432 | 4,330,772 |
| Transfer to subsidiaries | (1,371,909) | (2,671,534) | – | – | (202,113) | (4,245,556) |
| Transfer to other long-term assets | – | – | – | – | (236,493) | (236,493) |
| Disposals | (1,428,715) | (562,877) | (2,122) | (108,512) | – | (2,102,226) |
| **At 31 December 2013** | 49,338,988 | 32,939,285 | 3,401,241 | 3,812,133 | 1,030,996 | 90,522,643 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2013 | 16,853,470 | 7,448,145 | 846,491 | 2,603,198 | – | 27,751,304 |
| Charge for the year | 3,079,631 | 1,943,403 | 113,116 | 283,815 | – | 5,419,965 |
| Transfer to subsidiaries | (94,269) | (618,227) | – | – | – | (712,496) |
| Disposals | (1,100,921) | (525,955) | (51) | (102,438) | – | (1,729,365) |
| **At 31 December 2013** | 18,737,911 | 8,247,366 | 959,556 | 2,784,575 | – | 30,729,408 |
| **Impairment** | | | | | | |
| **At 1 January and 31 December 2013** | 769,819 | 107,770 | – | – | 5,200 | 882,789 |
| **Net book amount** | | | | | | |
| **At 31 December 2013** | 29,831,258 | 24,584,149 | 2,441,685 | 1,027,558 | 1,025,796 | 58,910,446 |
| At 1 January 2013 | 26,496,007 | 25,188,689 | 1,911,649 | 921,544 | 1,497,284 | 56,015,173 |

## 19. PROPERTY, PLANT AND EQUIPMENT (continued)

**Group**

| | Aircraft, engines and flight equipment | | | | | |
|---|---|---|---|---|---|---|
| | Owned RMB'000 | Held under finance leases RMB'000 | Buildings RMB'000 | Other property, plant and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
| **Cost** | | | | | | |
| At 1 January 2012 | 59,860,668 | 37,640,743 | 5,237,670 | 5,632,102 | 2,139,160 | 110,510,343 |
| Transfers from construction in progress | – | – | 1,584,745 | 69,657 | (1,654,402) | – |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 4,716,802 | 1,982,177 | – | – | – | 6,698,979 |
| Sales and finance leased back | (1,583,999) | 1,583,999 | – | – | – | – |
| Additions | 5,443,597 | 2,862,007 | 3,721 | 562,357 | 1,576,395 | 10,448,077 |
| Other decrease | (25,656) | (664,141) | – | – | – | (689,797) |
| Transfer to other long-term assets | – | – | – | – | (55,506) | (55,506) |
| Disposals | (906,650) | (486,316) | (7,079) | (195,284) | – | (1,595,329) |
| **At 31 December 2012** | 67,504,762 | 42,918,469 | 6,819,057 | 6,068,832 | 2,005,647 | 125,316,767 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2012 | 22,677,254 | 8,391,720 | 1,293,602 | 3,538,955 | – | 35,901,531 |
| Charge for the year | 4,394,601 | 2,397,541 | 234,749 | 443,957 | – | 7,470,848 |
| Sales and finance leased back | (32,363) | 32,363 | – | – | – | – |
| Disposals | (855,457) | (486,315) | (5,062) | (148,301) | – | (1,495,135) |
| **At 31 December 2012** | 26,184,035 | 10,335,309 | 1,523,289 | 3,834,611 | – | 41,877,244 |
| **Impairment** | | | | | | |
| At 1 January 2012 | 721,101 | 107,770 | – | 550 | 21,596 | 851,017 |
| Charge for the year | 89,870 | – | – | – | – | 89,870 |
| Disposals | (20,125) | – | – | – | – | (20,125) |
| **At 31 December 2012** | 790,846 | 107,770 | – | 550 | 21,596 | 920,762 |
| **Net book amount** | | | | | | |
| **At 31 December 2012** | 40,529,881 | 32,475,390 | 5,295,768 | 2,233,671 | 1,984,051 | 82,518,761 |
| At 1 January 2012 | 36,462,313 | 29,141,253 | 3,944,068 | 2,092,597 | 2,117,564 | 73,757,795 |

## 19. PROPERTY, PLANT AND EQUIPMENT (continued)

**Company**

| | Aircraft, engines and flight equipment | | | | | |
|---|---|---|---|---|---|---|
| | Owned RMB'000 | Held under finance leases RMB'000 | Buildings RMB'000 | Other property, plant and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
| **Cost** | | | | | | |
| At 1 January 2012 | 39,657,570 | 29,237,581 | 2,706,474 | 3,295,543 | 994,541 | 75,891,709 |
| Transfers from construction in progress | – | – | 50,510 | 807 | (51,317) | – |
| Transfers from advanced payments on acquisition of aircraft (Note 21) | 4,716,802 | 1,982,177 | – | – | – | 6,698,979 |
| Sales and finance leased back | (1,583,999) | 1,583,999 | – | – | – | – |
| Additions | 3,565,109 | 2,741,934 | 3,149 | 360,683 | 559,260 | 7,230,135 |
| Invests to subsidiaries as capital contribution | (1,393,517) | – | – | (52,460) | – | (1,445,977) |
| Transfer to subsidiaries | (309,240) | (1,929,542) | – | – | – | (2,238,782) |
| Disposals | (533,429) | (334,251) | (1,993) | (79,831) | – | (949,504) |
| Other decrease | – | (537,294) | – | – | – | (537,294) |
| **At 31 December 2012** | 44,119,296 | 32,744,604 | 2,758,140 | 3,524,742 | 1,502,484 | 84,649,266 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2012 | 15,139,068 | 6,446,397 | 751,256 | 2,474,624 | – | 24,811,345 |
| Charge for the year | 2,839,275 | 1,882,829 | 96,758 | 247,833 | – | 5,066,695 |
| Sales and finance leased back | (32,363) | 32,363 | – | – | – | – |
| Invests to subsidiaries as capital contribution | (566,468) | – | – | (42,120) | – | (608,588) |
| Transfer to subsidiaries | (23,677) | (579,193) | – | – | – | (602,870) |
| Disposals | (502,365) | (334,251) | (1,523) | (77,139) | – | (915,278) |
| **At 31 December 2012** | 16,853,470 | 7,448,145 | 846,491 | 2,603,198 | – | 27,751,304 |
| **Impairment** | | | | | | |
| At 1 January 2012 | 721,101 | 107,770 | – | – | 5,200 | 834,071 |
| Charge for the year | 48,718 | – | – | – | – | 48,718 |
| **At 31 December 2012** | 769,819 | 107,770 | – | – | 5,200 | 882,789 |
| **Net book amount** | | | | | | |
| **At 31 December 2012** | 26,496,007 | 25,188,689 | 1,911,649 | 921,544 | 1,497,284 | 56,015,173 |
| At 1 January 2012 | 23,797,401 | 22,683,414 | 1,955,218 | 820,919 | 989,341 | 50,246,293 |

As at 31 December 2013, certain aircraft and buildings owned by the Group and the Company with an aggregate net book amount of approximately RMB24,306 million and RMB14,702 million, respectively (2012:approximately RMB22,544 million and RMB15,078 million, respectively) were pledged as collateral under certain loan arrangements (Note 34).

## 20. LEASE PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Cost** | | | | |
| At 1 January | **2,154,508** | 1,796,276 | **964,546** | 659,611 |
| Additions | **438,056** | 358,232 | **435,578** | 304,935 |
| Disposals | **(15,425)** | – | **(15,209)** | – |
| At 31 December | **2,577,139** | 2,154,508 | **1,384,915** | 964,546 |
| **Accumulated amortisation** | | | | |
| At 1 January | **372,662** | 325,004 | **183,400** | 162,310 |
| Charge for the year | **51,920** | 47,658 | **21,739** | 21,090 |
| Disposals | **(2,087)** | – | **(2,087)** | – |
| At 31 December | **422,495** | 372,662 | **203,052** | 183,400 |
| **Net book amount** | | | | |
| At 31 December | **2,154,644** | 1,781,846 | **1,181,863** | 781,146 |

Lease prepayments represent unamortised prepayments for land use rights.

The Group's land use rights are located in the PRC and the majority of these land use rights have terms of 50 years from the date of grant. As at 31 December 2013, the majority of these land use rights had remaining terms ranging from 33 to 50 years (2012: from 34 to 50 years).

## 21. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **11,894,891** | 10,968,344 | **10,733,899** | 10,195,340 |
| Payment during the year | **17,261,022** | 7,328,529 | **12,711,627** | 6,947,846 |
| Interest capitalised (Note 13) | **384,865** | 296,997 | **365,001** | 289,692 |
| Transfers to property, plant and equipment (Note 19) | **(13,244,497)** | (6,698,979) | **(8,126,880)** | (6,698,979) |
| At 31 December | **16,296,281** | 11,894,891 | **15,683,647** | 10,733,899 |

Included in the Group's and the Company's balances as at 31 December 2013, the amounts of accumulated interest capitalised were approximately RMB504 million and RMB490 million, respectively (2012: RMB630 million and RMB623 million, respectively).

## 22. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Investment, at cost | 9,568,564 | 10,455,900 |

Particulars of the principal subsidiaries, majority of which are limited liability companies established and operating in the PRC, are as follows:

| Company name | Place of establishment and operation and date of establishment | Registered Capital 2013 RMB'000 | Registered Capital 2012 RMB'000 | Attributable equity interest 2013 | Attributable equity interest 2012 | Principal activities |
|---|---|---|---|---|---|---|
| China Eastern Airlines Jiangsu Co., Ltd. ("CEA Jiangsu") | PRC 3 May 1993 | 2,000,000 | 2,000,000 | 62.56% | 62.56% | Provision of airline services |
| China Eastern Airlines Wuhan Co.,Ltd. ("CEA Wuhan") (Note (b)) | PRC 16 August 2002 | 1,750,000 | 1,750,000 | 60% | 72% | Provision of airline services |
| Shanghai Eastern Flight Training Co., Ltd. ("Flight Training") | PRC 18 December 1995 | 608,443 | 608,443 | 100% | 100% | Provision of flight training services |
| Shanghai Airlines Co., Ltd. | PRC 16 March 2010 | 500,000 | 500,000 | 100% | 100% | Provision of airline services |
| China Cargo Airlines Co., Ltd. ("China Cargo") | PRC 22 July 1998 | 3,000,000 | 3,000,000 | 51% | 51% | Provision of cargo carriage service |
| Shanghai Eastern Airlines Logistics Co., Ltd. ("Eastern Logistics") | PRC 23 August 2004 | 1,150,000 | 1,150,000 | 100% | 100% | Provision of cargo logistics services |
| Eastern Business Airlines Service Co., Ltd. | PRC 27 September 2008 | 50,000 | 50,000 | 100% | 100% | Provision of airlines consultation services |
| China Eastern Airlines Yunnan Co., Ltd. ("CEA Yunnan") (Note (a)) | PRC 2 August 2011 | 3,661,540 | 3,661,540 | 90.36% | 90.36% | Provision of airline services |
| Eastern Air Oversea (Hong Kong) Co., Ltd. | Hong Kong 10 June 2011 | HKD30,000 | HKD 30,000 | 100% | 100% | Provision of import and export, investment, leasing and consultation services |

## 22. INVESTMENTS IN SUBSIDIARIES (continued)

| Company name | Place of establishment and operation and date of establishment | Registered Capital 2013 RMB'000 | Registered Capital 2012 RMB'000 | Attributable equity interest 2013 | Attributable equity interest 2012 | Principal activities |
|---|---|---|---|---|---|---|
| China United Airlines Co., Ltd. ("United Airlines") | PRC<br>21 September 1984 | **1,320,000** | 1,320,000 | **100%** | 100% | Provision of airline services |
| Eastern Airlines Hotel Co., Ltd. | PRC<br>18 March 1998 | **70,000** | 70,000 | **86%** | 86% | Provision of hotel services primarily to crew members |
| Shanghai Airlines Tours International (Group) Co., Ltd. ("Shanghai Airlines Tours") | PRC<br>29 August 1992 | **50,090** | 50,090 | **100%** | 100% | Tour operations, travel and air ticketing agency and transportation |

Notes:

(a) In 2010, the Company entered into an agreement with the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province ("Yunnan SASAC") to establish CEA Yunnan with registered capital of RMB3,662 million, in which the Company holds 65% interests. As at 31 December 2013, the Company has contributed all its share of RMB2,380 million in cash and net assets; Yunnan SASAC has contributed its share of RMB254 million in cash.

(b) In 2012, the existing shareholders of CEA Wuhan and certain new shareholders decided to increase the registered capital of CEA Wuhan from RMB600 million to RMB1,750 million. In 2012 and 2013, the Company, in total, contributed capital of RMB1,050 million in cash, among which RMB474 million was recognized as registered capital and RMB576 million was credited to the share premium of CEA Wuhan; and the other investors contributed capital of RMB700 million, among which RMB676 million was recognized as registered capital and RMB24 million was recognized as share premium of CEA Wuhan. Upon completion of the aforementioned capital injections, the share percentage of the Company in CEA Wuhan was diluted to 60%..

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | 2013 | 2012 |
|---|---|---|
| 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%** | 38.00% |
| China Cargo | **49.00%** | 49.00% |

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Profit/(loss) for the year allocated to non-controlling interests: | | |
| CEA Jiangsu | **85,753** | 65,510 |
| CEA Yunnan | **30,698** | 41,061 |
| CEA Wuhan | **15,845** | 13,807 |
| China Cargo | **(337,691)** | (325,110) |

## 22. INVESTMENTS IN SUBSIDIARIES (continued)

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Dividends paid to non-controlling interests: | | |
| CEA Jiangsu | 18,720 | – |

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Accumulated balances of non-controlling interests at the reporting dates: | | |
| CEA Jiangsu | 831,975 | 765,013 |
| CEA Yunnan | 348,261 | 317,563 |
| CEA Wuhan | 701,856 | 286,011 |
| China Cargo | (235,936) | 101,333 |

The following tables illustrate the summarized financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

| | CEA Jiangsu RMB'000 | CEA Yunnan RMB'000 | CEA Wuhan RMB'000 | China Cargo RMB'000 |
|---|---|---|---|---|
| **2013** | | | | |
| Revenue | 6,111,089 | 8,901,282 | 3,139,639 | 5,581,572 |
| Total expenses | 5,882,049 | 8,582,834 | 2,743,502 | 6,248,133 |
| Profit/(loss) for the year | 229,040 | 318,448 | 396,137 | (666,561) |
| Total comprehensive income/(loss) for the year | 301,725 | 318,448 | 448,682 | (625,054) |
| Current assets | 1,057,831 | 513,991 | 1,523,830 | 1,901,480 |
| Non-current assets | 5,707,795 | 8,373,386 | 2,329,228 | 2,210,415 |
| Current liabilities | 2,123,768 | 2,099,789 | 925,762 | 3,331,860 |
| Non-current liabilities | 2,232,246 | 3,174,920 | 946,439 | 1,184,380 |
| Net cash flows from/(used in) operating activities | 824,405 | 1,924,349 | 346,217 | (804,118) |
| Net cash flows (used in) from investing activities | (394,882) | (1,645,456) | (1,205,877) | 595,193 |
| Net cash flows (used in) from financing activities | (448,934) | (465,753) | 871,119 | 120,509 |
| Effect of foreign exchange rate changes, net | (508) | (1,421) | – | (375) |
| Net (decrease)/increase in cash and cash equivalents | (19,919) | (188,281) | 11,459 | (88,791) |

## 22. INVESTMENTS IN SUBSIDIARIES (continued)

| | CEA Jiangsu RMB'000 | CEA Yunnan RMB'000 | CEA Wuhan RMB'000 | China Cargo RMB'000 |
|---|---|---|---|---|
| 2012 | | | | |
| Revenue | 6,294,295 | 8,708,863 | 3,371,438 | 5,994,652 |
| Total expenses | 6,119,322 | 8,282,919 | 3,026,264 | 6,676,083 |
| Profit/(loss) for the year | 174,973 | 425,944 | 345,174 | (681,431) |
| Total comprehensive for the year | 162,772 | 425,944 | 351,673 | (709,017) |
| Current assets | 1,149,345 | 1,172,427 | 452,044 | 2,193,254 |
| Non-current assets | 5,171,636 | 7,635,406 | 1,791,146 | 2,465,094 |
| Current liabilities | 2,114,195 | 2,409,270 | 819,822 | 3,075,562 |
| Non-current liabilities | 2,161,854 | 3,072,101 | 944,888 | 1,362,076 |
| Net cash flows from/(used in) operating activities | 500,234 | (355,051) | (207,676) | 88,970 |
| Net cash flows used in investing activities | (96,948) | (791,529) | (46,089) | (795,678) |
| Net cash flows (used in)/from financing activities | (450,416) | 707,690 | 192,362 | (120,271) |
| Effect of foreign exchange rate changes, net | (5) | (32) | 21 | (182) |
| Net (decrease)/increase in cash and cash equivalents | (47,135) | (438,922) | (61,382) | (827,161) |

## 23. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Unlisted investments, at cost | **852,896** | 620,329 | **611,585** | 578,836 |
| Share of results/reserves | **211,512** | 213,143 | **–** | – |
| | **1,064,408** | 833,472 | **611,585** | 578,836 |

The movements on investments in associates were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| At 1 January | **833,472** | 837,589 | **578,836** | 578,836 |
| Addition through the acquisition of associates | **236,725** | – | **36,000** | – |
| Share of results of associates | **38,335** | 103,209 | **–** | – |
| Share of revaluation on available-for-sale financial assets held by an associate | **(2,931)** | 2,188 | **–** | – |
| Disposal of associates | **(3,372)** | (2,439) | **(3,251)** | – |
| Dividend received/declared during the year | **(37,821)** | (107,075) | **–** | – |
| At 31 December | **1,064,408** | 833,472 | **611,585** | 578,836 |

## 23. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the principal associates, which are limited liability companies established and operating in the PRC, are as follows:

| Company name | Place of establishment and operation and date of establishment | Registered capital 2013 RMB'000 | Registered capital 2012 RMB'000 | Attributable equity interest 2013 | Attributable equity interest 2012 | Principal activities |
|---|---|---|---|---|---|---|
| Eastern Air Group Finance Co., Ltd. ("Eastern Finance") | PRC<br>6 December 1995 | **400,000** | 400,000 | **25%** | 25% | Provision of financial services to group companies of CEA Holding |
| China Eastern Air Catering Investment Co., Ltd. | PRC<br>17 November 2003 | **350,000** | 350,000 | **45%** | 45% | Provision of air catering services |
| Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited ("Shanghai P&W") (Note) | PRC<br>28 March 2008 | **USD39,500** | USD39,500 | **51%** | 51% | Provision of maintenance of aircraft, engine and other related components maintenance services |
| New Shanghai International Tower Co., Ltd. | PRC<br>17 November 1992 | **166,575** | 166,575 | **20%** | 20% | Provision of property development and management |
| Eastern Aviation Import & Export Co., Ltd. ("Eastern Import & Export") | PRC<br>9 June 1993 | **80,000** | 80,000 | **45%** | 45% | Provision of aviation equipment, spare parts purchase |
| Eastern Aviation Advertising Service Co., Ltd. ("Eastern Advertising") | PRC<br>4 March 1986 | **200,000** | 50,000 | **45%** | 45% | Provision of aviation advertising agency services |
| Collins Aviation Maintenance Service Shanghai Ltd. | PRC<br>27 September 2002 | **USD7,000** | USD7,000 | **35%** | 35% | Provision of airline electronic product maintenance services |
| Jetstar Hong Kong Airways Ltd. ("Jetstar") | Hong Kong<br>4 September 2012 | **USD198,000** | USD198,000 | **33%** | 50% | Provision of airline services |

Note:

In 2008, the Company entered into an agreement with United Technologies International Corporation ("Technologies International") to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited ("Shanghai P&W"). Shanghai P&W has a registered capital of approximately USD40 million in which the Company holds a 51% interests. 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.

## 23. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that were not individually material:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Share of the associates' profit for the year | 38,335 | 103,209 |
| Share of the associates' other comprehensive (loss)/income | (2,931) | 2,188 |
| Share of the associates' total comprehensive income | 35,404 | 105,397 |
| Aggregate carrying amount of the Group's investments in the associates | 1,064,408 | 833,472 |

## 24. INVESTMENTS IN JOINT VENTURES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
| Unlisted investments, at cost | 293,740 | 323,238 | 323,238 | 323,238 |
| Share of results/reserves | 139,284 | 94,921 | – | – |
| | 433,024 | 418,159 | 323,238 | 323,238 |

The movements on investments in joint ventures were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
| At 1 January | 418,159 | 423,256 | 323,238 | 323,238 |
| Share of results | 26,588 | 29,960 | – | – |
| Disposal of joint ventures | (437) | – | – | – |
| Dividend received/declared during the year | (11,286) | (35,057) | – | – |
| At 31 December | 433,024 | 418,159 | 323,238 | 323,238 |

## 24. INVESTMENTS IN JOINT VENTURES (continued)

Particulars of the principal joint ventures, all of which are limited liability companies established and operating in the PRC, are as follows:

| Company name | Place of establishment and operation and date of establishment | Paid-up capital 2013 RMB'000 | Paid-up capital 2012 RMB'000 | Attributable equity interest 2013 | Attributable equity interest 2012 | Principal activities |
|---|---|---|---|---|---|---|
| Shanghai Technologies Aerospace Co., Ltd. ("Technologies Aerospace") (Note) | PRC<br>28 September 2004 | USD73,000 | USD73,000 | 51% | 51% | Provision of repair and maintenance Services |
| Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. ("Wheels & Brakes") | PRC<br>28 December 1995 | USD2,100 | USD2,100 | 40% | 40% | Provision of spare parts repair and maintenance Services |
| Eastern China Kaiya System Integration Co., Ltd. | PRC<br>21 May 1995 | 10,000 | 10,000 | 41% | 41% | Provision of computer systems development and maintenance services |

Note:

Under a Joint Venture Agreement with the joint venture partner of Technologies Aerospace dated 10 March 2003, the Company agreed to share 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:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Share of the joint ventures' profit for the year | 26,588 | 29,960 |
| Share of the joint ventures' total comprehensive income | 26,588 | 29,960 |
| Aggregate carrying amount of the Group's investments in the joint ventures | 433,024 | 418,159 |

## 25. OTHER LONG-TERM ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Deposits relating to aircraft held under operating leases | **669,560** | 807,543 | **279,387** | 251,411 |
| Deferred pilot recruitment costs (Note) | **1,111,325** | 869,082 | **885,885** | 769,908 |
| Other long-term assets | **588,265** | 281,631 | **392,750** | 55,717 |
| | **2,369,150** | 1,958,256 | **1,558,022** | 1,077,036 |

Note:

Deferred pilot recruitment costs mainly represent the cost bore by the Group in connection with securing certain minimum periods of employment of pilots and are amortised on a straight-line basis over the anticipated beneficial period of five years, starting from when the pilot joints the Group.

## 26. FLIGHT EQUIPMENT SPARE PARTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Flight equipment spare parts | **2,962,339** | 2,765,291 | **2,556,027** | 2,402,863 |
| Less: provision for spare parts | **(656,927)** | (677,313) | **(592,413)** | (608,416) |
| | **2,305,412** | 2,087,978 | **1,963,614** | 1,794,447 |

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 was estimated based on current market condition, historical experience and Company's future operation plan for the aircraft and related spare parts.

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **677,313** | 950,844 | **608,416** | 740,648 |
| Provision written off in relation to disposal of spare parts | **–** | (170,194) | **–** | – |
| Reversal of impairment of spare parts (Note 10) | **(20,386)** | (103,337) | **(16,003)** | (132,232) |
| At 31 December | **656,927** | 677,313 | **592,413** | 608,416 |

## 27. TRADE RECEIVABLES

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

The aging analysis of trade receivables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 90 days | **2,771,445** | 2,851,736 | **2,815,842** | 3,527,071 |
| 91 to 180 days | **610,322** | 68,488 | **93,246** | 37,897 |
| 181 to 365 days | **147,812** | 35,995 | **30,925** | 28,799 |
| Over 365 days | **192,786** | 208,770 | **53,419** | 87,537 |
| | **3,722,365** | 3,164,989 | **2,993,432** | 3,681,304 |
| Less: provision for impairment of receivables | **(197,819)** | (202,808) | **(79,603)** | (80,283) |
| Trade receivables | **3,524,546** | 2,962,181 | **2,913,829** | 3,601,021 |

Balances with related companies included in trade receivables are summarised in Note 47(c)(i).

The carrying amounts of the trade receivables approximated their fair value.

Trade receivables that were neither overdue nor impaired relate to a large number of independent sales agents for whom there are no recent history of default.

As at 31 December 2013, trade receivables of RMB295 million (2012: RMB137 million) were past due but not impaired. These relate to a number of independent sales agents for whom there are no recent history of default. The Group holds cash deposits of RMB447 million (2012: RMB680 million) from these agents. The ageing analysis of these trade receivables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 90 days | **148,262** | 48,017 | **22,457** | 18,956 |
| 91 to 180 days | **88,601** | 52,997 | **15,214** | 37,897 |
| 181 to 365 days | **57,744** | 35,995 | **42,979** | 28,799 |
| | **294,607** | 137,009 | **80,650** | 85,652 |

As at 31 December 2013, trade receivables of RMB154 million (2012: RMB167 million) were impaired and fully provided for. The remaining impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The factors considered by management in determining the impairment are described in Note 2(s).

## 27. TRADE RECEIVABLES (continued)

The ageing of impaired receivables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
| 181 to 365 days overdue | 59,210 | 15,490 | 30,865 | 7,843 |
| 1 to 2 years overdue | 28,328 | 22,714 | 4,917 | 9,469 |
| Over 2 years overdue | 164,458 | 186,057 | 48,562 | 78,069 |
| | 251,996 | 224,261 | 84,344 | 95,381 |

Movements on the Group's provision for impairment of trade receivables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
| At 1 January | 203,220 | 233,055 | 80,283 | 106,329 |
| Receivables written off during the year as uncollectible | (679) | (30,064) | (680) | (26,046) |
| Reversal of impairment of receivables | (4,722) | (183) | – | – |
| At 31 December | 197,819 | 202,808 | 79,603 | 80,283 |

The net impact of creation and release of provisions for impaired receivables have been included in 'Reversal of impairment of trade and other receivables' in the profit or loss (Note 11). 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:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
| Currency | | | | |
| Renminbi | 3,229,939 | 2,510,514 | 2,659,694 | 3,211,196 |
| Japanese Yen | 41,074 | 161,020 | 41,053 | 161,020 |
| US Dollars | 121,017 | 119,362 | 62,857 | 30,523 |
| Euro | 157,105 | 156,354 | 56,598 | 60,826 |
| Hong Kong Dollars | 63,636 | 66,565 | 63,636 | 66,565 |
| Other currencies | 109,594 | 151,174 | 109,594 | 151,174 |
| | 3,722,365 | 3,164,989 | 2,993,432 | 3,681,304 |

The maximum exposure to credit risk at the reporting date was the carrying amount of receivable shown above.

## 28. PREPAYMENTS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| VAT recoverable | **979,013** | 920,135 | **973,470** | 919,517 |
| Rebate receivables on aircraft acquisitions | **574,235** | 676,126 | **798,224** | 645,781 |
| Amounts due from related companies (Note 47(c)(i)) | **201,432** | 402,844 | **7,736,297** | 4,577,552 |
| Prepaid aircraft operating lease rentals | **304,899** | 314,600 | **124,951** | 130,622 |
| Rental deposits | **300,396** | 236,508 | **187,639** | 201,103 |
| Others | **1,988,974** | 1,106,486 | **1,108,743** | 689,173 |
| Subtotal | **4,348,949** | 3,656,699 | **10,929,324** | 7,163,748 |
| Less: bad debt provision | **(290,782)** | (288,051) | **(252,434)** | (254,756) |
| | **4,058,167** | 3,368,648 | **10,676,890** | 6,908,992 |

## 29. RESTRICTED BANK DEPOSITS AND SHORT-TERM BANK DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Bank deposits with original maturity over three months but less than a year | **167,314** | 1,657,568 | **15,714** | 55,806 |
| Restricted bank deposits | **215,749** | 68,683 | **197,224** | 53,737 |
| | **383,063** | 1,726,251 | **212,938** | 109,543 |

Note:

As at 31 December 2013, the deposits bore effective interest rates ranging from 0.35% to 4.65% per annum.

The carrying amounts of the Group's and Company's restricted bank deposits and short-term bank deposits were denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Renminbi | **198,170** | 1,625,891 | **28,045** | 9,183 |
| Japanese Yen | **–** | 39,724 | **–** | 39,724 |
| US Dollars | **180,967** | 16,082 | **180,967** | 16,082 |
| Hong Kong Dollars | **–** | 15,973 | **–** | 15,973 |
| Euro | **–** | 9,818 | **–** | 9,818 |
| Other currencies | **3,926** | 18,763 | **3,926** | 18,763 |
| | **383,063** | 1,726,251 | **212,938** | 109,543 |

## 30. CASH AND CASH EQUIVALENTS

The carrying amounts of the Group's and Company's cash and cash equivalents are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Renminbi | **1,493,804** | 1,933,933 | **593,818** | 152,173 |
| US Dollars | **280,800** | 372,388 | **219,700** | 263,523 |
| Euro | **31,840** | 38,172 | **29,088** | 35,431 |
| Japanese Yen | **22,036** | 30,451 | **21,753** | 30,267 |
| Hong Kong Dollars | **31,932** | 25,528 | **31,632** | 25,110 |
| Other currencies | **134,566** | 111,224 | **133,523** | 110,918 |
| | **1,994,978** | 2,511,696 | **1,029,514** | 617,422 |

## 31. TRADE AND BILLS PAYABLE

The aging analyses of trade and bills payable was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Within 90 days | **2,309,391** | 1,473,087 | **6,228,833** | 6,776,696 |
| 91 to 180 days | **245,085** | 397,815 | **21,984** | 17,467 |
| 181 to 365 days | **416,240** | 675,630 | **529,504** | 420,700 |
| 1 to 2 years | **172,268** | 378,922 | **134,183** | 272,317 |
| Over 2 years | **320,032** | 149,871 | **254,936** | 71,162 |
| | **3,463,016** | 3,075,325 | **7,169,440** | 7,558,342 |

As at 31 December 2013, the trade and bills payable balances of the Group and the Company included amounts due to related companies of RMB996 million (2012: RMB1,950 million) and RMB5,380 million (2012: RMB7,175 million), respectively (Note 47(c)(ii)).

As at 31 December 2013, bills payable amounted to RMB40 million (2012: RMB250 million), which were secured and repayable within six months.

## 32. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Accrued salaries, wages and benefits | **2,459,058** | 2,210,517 | **1,439,724** | 1,361,547 |
| Accrued take-off and landing charges | **1,749,561** | 2,127,855 | **708,419** | 681,157 |
| Accrued fuel cost | **2,366,054** | 2,175,948 | **1,312,425** | 1,219,983 |
| Accrued expenses related to aircraft overhaul conducted | **1,806,836** | 1,675,056 | **891,074** | 871,867 |
| Duties and levies payable | **1,539,769** | 1,574,574 | **846,593** | 917,995 |
| Other accrued operating expenses | **3,181,802** | 2,038,930 | **1,705,735** | 1,061,784 |
| Deposits received from ticket sales agents | **780,241** | 680,318 | **359,602** | 298,690 |
| Current portion of other long-term liabilities (Note 36) | **368,225** | 314,996 | **180,465** | 184,183 |
| Staff housing allowance (Note 39(b)) | **360,197** | 391,358 | **250,466** | 242,614 |
| Amounts due to related companies (Note 47(c)(ii)) | **702,580** | 194,884 | **5,186,485** | 2,412,228 |
| Current portion of post-retirement benefit obligations (Note 38(iii)) | **203,508** | 85,800 | **152,629** | 70,051 |
| Other payables | **2,628,043** | 2,785,989 | **2,223,299** | 1,765,172 |
| | **18,145,874** | 16,256,225 | **15,256,916** | 11,087,271 |

## 33. OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2013, the Group and the Company had 111 and 73 aircraft (2012: 98 and 72 aircraft), respectively, under finance leases. Under the terms of the leases, the Group and the Company 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:

**Group**

| | **Minimum lease payments 2013 RMB'000** | **Present values of minimum lease payments 2013 RMB'000** | Minimum lease payments 2012 RMB'000 | Present values of minimum lease payments 2012 RMB'000 |
|---|---|---|---|---|
| Within one year | **3,446,098** | **2,980,398** | 3,004,452 | 2,605,269 |
| In the second year | **3,374,964** | **2,964,821** | 3,059,744 | 2,704,168 |
| In the third to fifth years, inclusive | **9,751,595** | **8,650,607** | 8,685,669 | 7,924,892 |
| After the fifth year | **8,956,378** | **8,539,322** | 9,027,940 | 8,623,649 |
| Total | **25,529,035** | **23,135,148** | 23,777,805 | 21,857,978 |
| Less: amount repayable within one year | **(3,446,098)** | **(2,980,398)** | (3,004,452) | (2,605,269) |
| Long-term portion | **22,082,937** | **20,154,750** | 20,773,353 | 19,252,709 |

**Company**

| | **Minimum lease payments 2013 RMB'000** | **Present values of minimum lease payments 2013 RMB'000** | Minimum lease payments 2012 RMB'000 | Present values of minimum lease payments 2012 RMB'000 |
|---|---|---|---|---|
| Within one year | **2,342,089** | **2,033,158** | 2,306,694 | 1,978,018 |
| In the second year | **2,281,941** | **2,011,263** | 2,348,170 | 2,048,012 |
| In the third to fifth years, inclusive | **5,913,950** | **5,335,933** | 6,776,545 | 6,114,045 |
| After the fifth year | **7,156,863** | **6,846,296** | 7,707,677 | 7,336,135 |
| Total | **17,694,843** | **16,226,650** | 19,139,086 | 17,476,210 |
| Less: amount repayable within one year | **(2,342,089)** | **(2,033,158)** | (2,306,694) | (1,978,018) |
| Long-term portion | **15,352,754** | **14,193,492** | 16,832,392 | 15,498,192 |

## 34. BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Non-current | | | | |
| Long-term bank borrowings | | | | |
| – secured (Note (a)) | **12,743,594** | 15,780,892 | **7,406,321** | 10,621,656 |
| – unsecured (Note (b)) | **7,586,243** | 4,815,271 | **6,993,393** | 4,465,678 |
| Guaranteed bonds (Note (c)) | **6,985,406** | 2,500,000 | **4,789,001** | – |
| | **27,315,243** | 23,096,163 | **19,188,715** | 15,087,334 |
| Current | | | | |
| Current portion of long-term bank borrowings | | | | |
| – secured (Note (a)) | **2,118,724** | 2,612,055 | **1,200,132** | 1,772,886 |
| – unsecured (Note (b)) | **6,741,080** | 7,147,656 | **6,726,867** | 7,007,649 |
| Short-term bank borrowings | | | | |
| – unsecured (Note (b)) | **7,925,383** | 8,880,244 | **8,017,739** | 7,555,262 |
| Short-term debentures (Note (d)) | **4,000,000** | 4,000,000 | **4,000,000** | 4,000,000 |
| Guaranteed bonds (Note (c)) | **2,500,000** | – | **–** | – |
| | **23,285,187** | 22,639,955 | **19,944,738** | 20,335,797 |
| Total borrowings | **50,600,430** | 45,736,118 | **39,133,453** | 35,423,131 |
| The borrowings are repayable as follows: | | | | |
| Within one year | **23,285,187** | 22,639,955 | **19,944,738** | 20,335,797 |
| In the second year | **6,605,737** | 7,272,821 | **5,574,125** | 3,880,837 |
| In the third to fifth year inclusive | **9,951,677** | 7,905,631 | **4,997,700** | 5,536,565 |
| After the fifth year | **10,757,829** | 7,917,711 | **8,616,890** | 5,669,932 |
| Total borrowings | **50,600,430** | 45,736,118 | **39,133,453** | 35,423,131 |

Notes:

(a) As at 31 December 2013, the secured bank borrowings of the Group and the Company were pledged by the related aircraft and buildings with an aggregate net book amount of RMB24,306 million and RMB14,702 million (2012: RMB22,544 million and RMB15,078 million), respectively (Note 19).

(b) Certain unsecured bank borrowings of the Group guaranteed by CEA Holding was nil (2012: RMB95 million) (Note 47(d)).

(c) On 8 August 2011, Eastern Air Overseas (Hong Kong) Corporation Limited ("Eastern Air Overseas HK"), a wholly owned subsidiary of the Company, 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% per annum, which is payable semi-annually. The principle of the bonds will mature and be repayable on 8 August 2014. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

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 is payable annually. The principle 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.

On 5 June 2013, Eastern Air Overseas HK, 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 is payable semi-annually. The principle 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.

(d) On 5 June 2013, the Company issued short-term debentures with a principal of RMB4 billion with a maturity of 270 days. The debentures bear interest at the rate of 3.95% per annum.

## 34. BORROWINGS (continued)

The terms of the long-term borrowings were summarised as follows:

| Currency | Interest rate and final maturities | Group 2013 RMB'000 | Group 2012 RMB'000 | Company 2013 RMB'000 | Company 2012 RMB'000 |
|---|---|---|---|---|---|
| **Long-term bank borrowings** | | | | | |
| RMB denominated | interest rates ranging from 5.535% to 6.40% with final maturities through 2023 | **735,684** | 3,953,340 | **318,300** | 3,593,300 |
| USD denominated | interest rates ranging from 6 months libor 0.05% to 6 months libor 5.3% with final maturities through 2022 | **28,453,957** | 26,402,534 | **22,008,413** | 20,274,569 |
| **Guaranteed bonds** | | | | | |
| RMB denominated | interest rates ranging from 3.875% to 5.05% with final maturities through 2023 | **9,485,406** | 2,500,000 | **4,789,001** | – |
| Total long-term borrowings | | **38,675,047** | 32,855,874 | **27,115,714** | 23,867,869 |

Short-term borrowings of the Group and the Company are repayable within one year. As at 31 December 2013, the interest rates relating to such borrowings were ranged from 1.69% to 4.80% per annum (2012: 1.11% to 6.56%per annum).

The carrying amounts of the borrowings were denominated in the following currencies:

| | Group 2013 RMB'000 | Group 2012 RMB'000 | Company 2013 RMB'000 | Company 2012 RMB'000 |
|---|---|---|---|---|
| Renminbi | **15,386,090** | 13,827,340 | **10,657,301** | 9,943,300 |
| US Dollars | **35,214,340** | 31,605,345 | **28,476,152** | 25,176,398 |
| Japanese Yen | **–** | 303,433 | **–** | 303,433 |
| | **50,600,430** | 45,736,118 | **39,133,453** | 35,423,131 |

## 35. PROVISION FOR RETURN CONDITION CHECKS FOR AIRCRAFT UNDER OPERATING LEASES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **3,798,762** | 3,299,126 | **1,762,634** | 1,721,095 |
| Additional provisions | **871,616** | 872,770 | **280,875** | 209,772 |
| Utilisation | **(453,212)** | (373,134) | **(19,845)** | (168,233) |
| At 31 December | **4,217,166** | 3,798,762 | **2,023,664** | 1,762,634 |
| Less: current portion | **(1,453,985)** | (734,205) | **(641,869)** | (88,081) |
| Long-term portion | **2,763,181** | 3,064,557 | **1,381,795** | 1,674,553 |

In respect of aircraft and engines under operating leases, the Group has obligations to fulfill certain return conditions under the leases. The balance as at 31 December 2013 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

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Fair value of unredeemed points awarded under the Group's frequent flyer program | **1,732,406** | 1,624,248 | **1,026,421** | 940,147 |
| Long-term duties and levies payable relating to finance leases | **909,368** | 209,727 | **213,162** | 114,934 |
| Other long-term payables | **128,327** | 116,558 | **95,053** | 91,821 |
| | **2,770,101** | 1,950,533 | **1,334,636** | 1,146,902 |
| Less: current portion included in other payables and accrued expenses (Note 32) | **(368,225)** | (314,996) | **(180,465)** | (184,183) |
| Long-term portion | **2,401,876** | 1,635,537 | **1,154,171** | 962,719 |

## 37. DEFERRED TAXATION

Deferred income 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 statement of financial position:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | Restated | | |
| Deferred tax assets | | | | |
| – Deferred tax asset to be utilised after 12 months | **259,411** | 123,805 | **–** | – |
| – Deferred tax asset to be utilised within 12 months | **130,055** | 853 | **–** | – |
| | **389,466** | 124,658 | **–** | – |
| Deferred tax liabilities | | | | |
| – Deferred tax liability to be realized after 12 months | **(29,550)** | (29,326) | **–** | – |
| Net deferred tax assets | **359,916** | 95,332 | **–** | – |

Movements in the net deferred tax assets were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | Restated | | |
| At 1 January | **95,332** | 76,361 | **–** | – |
| Credited to profit or loss (Note 14) | **223,280** | 7,537 | **–** | – |
| Credited to OCI | **41,304** | 11,434 | **–** | – |
| At 31 December | **359,916** | 95,332 | **–** | – |

## 37. DEFERRED TAXATION (continued)

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:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 Restated | 2013 RMB'000 | 2012 RMB'000 |
| Deferred tax assets: | | | | |
| Impairment provision for obsolete flight equipment spare parts | 23,983 | 40,408 | 19,934 | 36,380 |
| Impairment provision for receivables | 19,209 | 23,950 | 11,172 | 20,034 |
| Impairment provision for property, plant and equipment | 39,461 | 43,222 | 22,016 | 39,123 |
| Derivative financial instruments | 16,927 | 20,339 | 16,927 | 20,339 |
| Provision for wages | 146,431 | – | 56,873 | – |
| Provision for post-retirement benefits | 425,801 | 266,677 | 155,425 | 154,062 |
| | 671,812 | 394,596 | 282,347 | 269,938 |
| Deferred tax liabilities: | | | | |
| Depreciation and amortisation | (294,969) | (294,745) | (265,420) | (265,419) |
| Derivative financial instruments | (16,927) | (4,519) | (16,927) | (4,519) |
| | (311,896) | (299,264) | (282,347) | (269,938) |
| | 359,916 | 95,332 | – | – |

## 37. DEFERRED TAXATION (continued)

Movements of the net deferred tax assets of the Group for the year:

| | At the beginning of the year RMB'000 Restated | (Charged)/ credited to profit or loss RMB'000 | Credited to OCI RMB'000 | At the end of the year RMB'000 |
|---|---|---|---|---|
| For the year ended 31 December 2013 | | | | |
| Impairment provision for obsolete flight equipment spare parts | 40,408 | (16,425) | – | 23,983 |
| Impairment provision for receivables | 23,950 | (4,741) | – | 19,209 |
| Impairment provision for property, plant and equipment | 43,222 | (3,761) | – | 39,461 |
| Derivative financial instruments | 20,339 | (3,412) | – | 16,927 |
| Provision for wages | – | 146,431 | – | 146,431 |
| Provision for post-retirement benefits | 266,677 | 117,820 | 41,304 | 425,801 |
| | 394,596 | 235,912 | 41,304 | 671,812 |
| Depreciation and amortisation | (294,745) | (224) | – | (294,969) |
| Derivative financial instruments | (4,519) | (12,408) | – | (16,927) |
| | (299,264) | (12,632) | – | (311,896) |
| Net deferred tax assets | 95,332 | 223,280 | 41,304 | 359,916 |

| | At the beginning of the year RMB'000 Restated | (Charged)/ credited to profit or loss RMB'000 Restated | Credited to OCI RMB'000 Restated | At the end of the year RMB'000 Restated |
|---|---|---|---|---|
| For the year ended 31 December 2012 | | | | |
| Impairment provision for obsolete flight equipment spare parts | 70,071 | (29,663) | – | 40,408 |
| Impairment provision for receivables | 34,745 | (10,795) | – | 23,950 |
| Impairment provision for property, plant and equipment | 78,286 | (35,064) | – | 43,222 |
| Derivative financial instruments | 29,201 | (8,862) | – | 20,339 |
| Provision for post-retirement benefits | 291,630 | (36,387) | 11,434 | 266,677 |
| | 503,933 | (120,771) | 11,434 | 394,596 |
| Depreciation and amortisation | (426,481) | 131,736 | – | (294,745) |
| Derivative financial instruments | (1,091) | (3,428) | – | (4,519) |
| | (427,572) | 128,308 | – | (299,264) |
| Net deferred tax assets | 76,361 | 7,537 | 11,434 | 95,332 |

## 37. DEFERRED TAXATION (continued)

As at the reporting period date, the Group and the Company had following balances in respect of which no deferred tax assets have been recognised:

| | Group | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Deferred taxation RMB'000 | Temporary differences RMB'000 | Deferred taxation RMB'000 Restated | Temporary differences RMB'000 Restated |
| Tax losses carried forward | 1,309,826 | 5,239,305 | 1,542,223 | 6,168,893 |
| Other deductible temporary differences | 1,831,626 | 7,326,504 | 1,622,600 | 6,490,400 |
| Total unrecognized deferred tax assets | 3,141,452 | 12,565,809 | 3,164,823 | 12,659,293 |

| | Company | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Deferred taxation RMB'000 | Temporary differences RMB'000 | Deferred taxation RMB'000 Restated | Temporary differences RMB'000 Restated |
| Tax losses carried forward | 791,120 | 3,164,480 | 966,430 | 3,865,719 |
| Other deductible temporary differences | 1,721,523 | 6,886,092 | 1,480,723 | 5,922,892 |
| Total unrecognized deferred tax assets | 2,512,643 | 10,050,572 | 2,447,153 | 9,788,611 |

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 and the Company's tax losses carried forward will expire between 2014 and 2018.

As at 31 December 2013, management carried out an assessment to determine whether future taxable profits will be available to utilize the tax losses and deductible temporary differences. As there are still uncertainties around the Group's future operation 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 arisen from aforementioned tax losses and deductible temporary difference were not recognised.

## 38. 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 the Group companies' retirement schemes. The Group companies are required to make annual contributions to the schemes at rates ranging from 20% to 22% on the employees' salary and allowances subject to certain ceiling as set up by the relevant municipal governments. Employees are required to contribute to the schemes at rates ranging from 7% to 8% of their salaries. For the year ended 31 December 2013, the Group's pension cost charged to the profit or loss amounted to RMB1,005 million (2012: RMB871 million).

### (b) Medical insurance

Majority of the Group's PRC employees participate in the medical insurance schemes organised by municipal governments, under which the Group companies and their employees are required to contribute to the schemes approximately 12% and 2%, respectively, of the employee's basic salaries subject to certain ceiling as set up by the relevant municipal governments. For those employees who participate in these schemes, the Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended 31 December 2013, the Group's medical insurance contributions charged to the profit or loss amounted to RMB478 million (2012: RMB391 million).

### (c) Post-retirement benefits

In addition to the above schemes, the Group provides retirees with other post-retirement benefits, including transportation subsidies, social function activities subsidies and other welfares. 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 employee turnover rate and etc.

Except that Shanghai Airlines requires contributions to be made to a separately administered fund, the Company and other subsidiaries do not require contributions to be made to the separately administered fund. The plan assets of Shanghai Airlines have the legal form of a foundation and they are administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan. Such a review mainly includes investment risk management policy. The investment portfolio has a mix of 53.45% in bonds, 19.59% in funds, 6.72% in resale securities, 2.64% in equity and 17.6% other investments.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and securities market risk.

The most recent actuarial valuation of the post-retirement benefit obligations was carried out at 31 December 2013 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 were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 Restated | **RMB'000** | RMB'000 Restated |
| Post-retirement benefit obligations | **5,818,801** | 6,233,652 | **4,618,964** | 5,066,745 |
| Less: current portion | **(203,508)** | (85,801) | **(152,629)** | (70,051) |
| Long-term portion | **5,615,293** | 6,147,851 | **4,466,335** | 4,996,694 |

## 38. 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:

| | 2013 | 2012 |
|---|---|---|
| Discount rate for internal retirees' benefits before normal retirement | 4.50% | 4.30% |
| Discount rate for post-retirement benefits | 5.15% | 4.35% |
| Employee turnover rate | 3.00% | 3%-3.25% |
| Mortality rate | 100% of China Insurance Life Mortality Table (2000-2003). CL3 for Male and CL4 for Female | 9.83% |
| Annual increase rate of medical expenses due to age | 2.50% | 5.00% |
| Annual increase rate of post-retirement medical expenses | 7.00% | 7.00% |
| Annual salary increase rate of active employees | 0.50% | 0.50% |

The actuarial valuation showed that the market value of plan assets was RMB122,618,000 (2012: RMB 89,819,000), and that the actuarial value of these assets represented 35.92% of the benefits that had accrued to qualifying employees.

A quantitative sensitivity analysis for the Group for significant assumptions as at 31 December 2013 is shown below:

| | Increase in rate | Increase/ (decrease) in net defined benefit obligations | Decrease in rate | Increase/ (decrease) in net defined benefit obligations |
|---|---|---|---|---|
| | % | RMB'000 | % | RMB'000 |
| Discount rate for post-retirement benefits | 0.25 | (248,630) | 0.25 | 266,644 |
| Discount rate for internal retiree', benefits before normal retirement | 0.25 | (248,630) | 0.25 | 266,644 |
| Annual increase rate of pension benefits | 1.00 | 920,537 | 1.00 | (714,989) |
| Annual increase rate of medical expenses | 1.00 | 300,978 | 1.00 | (224,374) |

## 38. PENSION, MEDICAL INSURANCE AND POST-RETIREMENT BENEFITS (continued)

### (c) Post-retirement benefits (continued)

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 periods.

The major categories of the fair value of the total plan assets of the Group were as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Equity instruments | 3,234 | 2,273 |
| Debt instruments | 65,539 | 47,470 |
| Fund investments | 24,022 | 29,627 |
| Other investments | 21,582 | 2,141 |
| Resalable securities | 8,241 | 8,308 |
| Total | 122,618 | 89,819 |

Expected contributions to be made in the future years out of the post-retirement defined benefit obligations were as follows:

**Group**

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within the next 12 months | 212,999 | 212,210 |
| Between 2 and 5 years | 914,989 | 886,844 |
| Between 5 and 10 years | 1,306,385 | 253,779 |
| Over 10 years | 15,929,832 | 12,870,677 |
| Total expected payments | 18,364,205 | 14,223,510 |

**Company**

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within the next 12 months | 159,735 | 159,146 |
| Between 2 and 5 years | 686,317 | 665,126 |
| Between 5 and 10 years | 983,354 | 916,364 |
| Over 10 years | 12,712,714 | 10,153,982 |
| Total expected payments | 14,542,120 | 11,894,618 |

The average duration of the post-retirement benefit obligations at the end of 2013 was 19 years (2012: 18.4 years).

## 38. PENSION, MEDICAL INSURANCE AND POST-RETIREMENT BENEFITS (continued)

### (c) Post-retirement benefits (continued)

The movements in the defined benefit obligations and the fair value of plan assets were as follows:

**Group**
**2013**

| | | Pension cost charged/(credited) to profit or loss | | | Remeasurement (gains) losses in other comprehensive income | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 January 2013 RMB'000 | Service cost/ investment income RMB'000 | Net interest RMB'000 | Sub-total included in profit or loss RMB'000 | Actuarial changes arising from financial assumptions RMB'000 | Actuarial changes arising from changes in demographic assumptions RMB'000 | Experience adjustments RMB'000 | Sub-total included in other comprehensive income RMB'000 | Benefit paid RMB'000 | 31 December 2013 RMB'000 |
| Defined benefit obligations | 6,323,471 | (59,704) | 276,484 | 216,780 | (593,165) | 491,776 | (324,783) | (426,172) | (172,660) | 5,941,419 |
| Fair value of plan assets | (89,819) | (28,721) | (5,270) | (33,991) | – | – | – | – | 1,192 | (122,618) |
| Benefit liability | 6,233,652 | (88,425) | 271,214 | 182,789 | (593,165) | 491,776 | (324,783) | (426,172) | (171,468) | 5,818,801 |

2012

| | | Pension cost charged/(credited) to profit or loss (restated) | | | Remeasurement (gains)/losses in other comprehensive income (restated) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 January 2012 RMB'000 | Service cost/ investment loss RMB'000 | Net interest RMB'000 | Sub-total included in profit or loss RMB'000 | Actuarial changes arising from financial assumptions RMB'000 | Actuarial changes arising from changes in demographic assumptions RMB'000 | changes in Experience adjustments RMB'000 | Sub-total included in other comprehensive income RMB'000 | Benefit paid RMB'000 | 31 December 2013 RMB'000 |
| Defined benefit obligations | 6,176,263 | 186,227 | 270,177 | 456,404 | (268,115) | – | 140,237 | (127,878) | (181,318) | 6,323,471 |
| Fair value of plan assets | (92,450) | 5,100 | (3,913) | 1,187 | – | – | – | – | 1,444 | (89,819) |
| Benefit liability | 6,083,813 | 191,327 | 266,264 | 457,591 | (268,115) | – | 140,237 | (127,878) | (179,874) | 6,233,652 |

The actual return in plan assets for 2013 amounted to RMB3,896K (2012: RMB7,478K).

## 38. PENSION, MEDICAL INSURANCE AND POST-RETIREMENT BENEFITS (continued)

### (c) Post-retirement benefits (continued)

**Company**
**2013**

| | | Pension cost charged/(credited) to profit or loss | | | Remeasurement (gains)/losses in other comprehensive income | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 January 2013 RMB'000 | Service cost RMB'000 | Net interest RMB'000 | Sub-total included in profit or loss RMB'000 | Actuarial changes arising from changes in financial assumptions RMB'000 | changes arising from changes in demographic assumptions RMB'000 | Experience adjustments RMB'000 | Sub-total included in other comprehensive income RMB'000 | Benefit paid RMB'000 | 31 December 2013 RMB'000 |
| Defined benefit obligations | 5,066,745 | (12,838) | 220,652 | 207,814 | (418,110) | 386,195 | (489,762) | (521,677) | (133,917) | 4,618,964 |

2012

| | | Pension cost charged/(credited) to profit or loss (restated) | | | Remeasurement (gains)/losses in other comprehensive income (restated) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 January 2012 RMB'000 | Service cost RMB'000 | Net interest RMB'000 | Sub-total included in profit or loss RMB'000 | Actuarial changes arising from changes in financial assumptions RMB'000 | changes arising from changes in demographic assumptions RMB'000 | Experience adjustments RMB'000 | Sub-total included in other comprehensive income RMB'000 | Benefit paid RMB'000 | 31 December 2012 RMB'000 |
| Defined benefit obligations | 5,032,085 | 136,179 | 217,457 | 353,636 | (214,830) | – | 39,526 | (175,304) | (143,672) | 5,066,745 |

## 39. STAFF HOUSING BENEFITS

### (a) Staff housing fund

In accordance with the PRC housing reform regulations, the Group is required to contribute to the State-sponsored housing fund for its employees at rates ranging from 7% to 15% (2012: 7% to 15%) of the specified salary amounts of its PRC 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. For the year ended 31 December 2013, the Group's contributions to the housing funds amounted to RMB718 million (2012: RMB607 million) which was charged to the consolidated profit or loss. The staff housing fund payable as at 31 December 2013 is RMB84 million (2012: RMB52 million). 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 relating to employee service in the current and prior periods.

### (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. As at 31 December 2013, the present obligation of the provision for employee's staff housing allowances is RMB360 million (2012: RMB391 million). For the year ended 31 December 2013, the staff housing benefit amounted to RMB218 million (2012: RMB171 million) which was charged to the consolidated profit or loss.

## 40. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group and Company | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 31 December | | | | |
| Interest rate swaps (Note (a)) | **54,902** | – | **124,194** | 295,005 |
| Forward foreign exchange contracts (Note (b)) | **12,807** | 18,074 | **3,386** | 45,146 |
| Total | **67,709** | 18,074 | **127,580** | 340,151 |
| Less: current portion | **–** | – | **–** | – |
| – Forward foreign exchange | **–** | (18,074) | **(3,386)** | (35,813) |
| Non-current portion | **67,709** | – | **124,194** | 304,338 |

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the 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(a)(ii)). 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 2013, the notional amount of the outstanding interest rate swap agreements was approximately US$844 million (2012: US$929 million). These agreements will expire between 2014 and 2022.

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:

| | Group and Company | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Realised losses (recorded in finance costs) | **(73,245)** | (99,169) |
| Unrealised mark to market losses | | |
| – cash flow hedges (recognised in OCI) | **209,449** | (47,128) |
| – fair value hedges (recognised in gain on fair value movements of derivatives financial instruments) | **16,262** | 15,755 |
| | **152,466** | (130,542) |

(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(a)(i)). The Group's foreign exchange forward contracts for selling foreign currency (i.e. Japanese Yen) and purchasing U.S. dollars at fixed exchange rates are accounted for as cash flow hedges. Other foreign exchange forward contracts are accounted for as fair value hedges. As at 31 December 2013, the notional amount of the outstanding currency forward contracts was approximately US$38 million (2012: US$58 million), which will expire between 2014 and 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:

| | Group and Company | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Realised gains/(losses) (recorded in finance income/(costs)) | **39,265** | (12,407) |
| Unrealised mark to market gains | | |
| – cash flow hedges (recognised in OCI) | **36,493** | 37,917 |
| | **75,758** | 25,510 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY

### (a) Group

| | Loans and Receivables RMB'000 | Assets at fair value through the profit and loss RMB'000 | Derivatives used for hedging RMB'000 | Available for sale RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Balance, 31 December 2013 | | | | | |
| Available-for-sale financial assets | – | – | – | 410,737 | 410,737 |
| Derivative financial instruments | – | – | 67,709 | – | 67,709 |
| Trade receivables | 3,524,546 | – | – | – | 3,524,546 |
| Prepayments and other receivables excluding prepayments | 1,940,508 | – | – | – | 1,940,508 |
| Restricted bank deposits and short-term bank deposits | 383,063 | – | – | – | 383,063 |
| Cash and cash equivalents | 1,994,978 | – | – | – | 1,994,978 |
| Other long-term assets | 1,030,801 | – | – | – | 1,030,801 |
| Total | 8,873,896 | – | 67,709 | 410,737 | 9,352,342 |

| | Loans and Receivables RMB'000 | Liabilities at fair value through the profit and loss RMB'000 | Derivatives used for hedging RMB'000 | Other financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Balance, 31 December 2013 | | | | | |
| Borrowings | 50,600,430 | – | – | – | 50,600,430 |
| Obligations under finance leases | 23,135,148 | – | – | – | 23,135,148 |
| Derivative financial instruments | – | – | 127,580 | – | 127,580 |
| Trade and bills payable | 3,463,016 | – | – | – | 3,463,016 |
| Other payables and accrued expenses | 12,294,994 | – | – | – | 12,294,994 |
| Total | 89,493,588 | – | 127,580 | – | 89,621,168 |

| | Loans and receivables RMB'000 | Assets at fair value through the profit and loss RMB'000 | Derivatives used for hedging RMB'000 | Available for sale RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Balance, 31 December 2012 | | | | | |
| Available-for-sale financial assets | – | – | – | 234,690 | 234,690 |
| Derivative financial instruments | – | – | 18,074 | – | 18,074 |
| Trade receivables | 2,962,181 | – | – | – | 2,962,181 |
| Prepayments and other receivables excluding prepayments | 2,544,967 | – | – | – | 2,544,967 |
| Restricted bank deposits and short-term bank deposits | 1,726,251 | – | – | – | 1,726,251 |
| Cash and cash equivalents | 2,511,696 | – | – | – | 2,511,696 |
| Total | 9,745,095 | – | 18,074 | 234,690 | 9,997,859 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### (a) Group (continued)

| | Loans and Receivables RMB'000 | Liabilities at fair value through the profit and loss RMB'000 | Derivatives used for hedging RMB'000 | Other financial liabilities at amortized cost RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Balance,31 December 2012 | | | | | |
| Borrowings | 45,736,118 | – | – | – | 45,736,118 |
| Obligations under finance leases | 21,857,978 | – | – | – | 21,857,978 |
| Derivative financial instruments | – | – | 340,151 | – | 340,151 |
| Trade and bills payable | 3,075,325 | – | – | – | 3,075,325 |
| Other payables and accrued expenses | 16,256,225 | – | – | – | 16,256,225 |
| Other long-term liabilities | 209,727 | – | – | – | 209,727 |
| Total | 87,135,373 | – | 340,151 | – | 87,475,524 |

### (b) Company

| | Loans and Receivables RMB'000 | Assets at fair value through the profit and loss RMB'000 | Derivatives used for hedging RMB'000 | Available for sale RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Balance, 31 December 2013 | | | | | |
| Available-for-sale financial assets | – | – | – | 374,117 | 374,117 |
| Derivative financial instruments | – | – | 67,709 | – | 67,709 |
| Trade receivables | 2,913,829 | – | – | – | 2,913,829 |
| Prepayments and other Receivables excluding prepayments | 9,224,602 | – | – | – | 9,224,602 |
| Restricted bank deposits and short-term bank deposits | 212,938 | – | – | – | 212,938 |
| Cash and cash equivalents | 1,029,514 | – | – | – | 1,029,514 |
| Other long-term assets | 640,628 | – | – | – | 640,628 |
| Total | 14,021,511 | – | 67,709 | 374,117 | 14,463,337 |

| | Loans and Receivables RMB'000 | Liabilities at fair value through the profit and loss RMB'000 | Derivatives used for hedging RMB'000 | Other financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Balance, 31 December 2013 | | | | | |
| Borrowings | 39,133,453 | – | – | – | 39,133,453 |
| Obligations under finance leases | 16,226,650 | – | – | – | 16,226,650 |
| Derivative financial instruments | – | – | 127,580 | – | 127,580 |
| Trade and bills payable | 7,169,440 | – | – | – | 7,169,440 |
| Other payables and accrued expenses | 11,860,368 | – | – | – | 11,860,368 |
| Total | 74,389,911 | – | 127,580 | – | 74,517,491 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### (b) Company (continued)

| | Loans and Receivables RMB'000 | Assets at fair value through the profit and loss RMB'000 | Derivatives used for hedging RMB'000 | Available for sale RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Balance, 31 December 2012 | | | | | |
| Available-for-sale financial assets | – | – | – | 216,256 | 216,256 |
| Derivative financial instruments | – | – | 18,074 | – | 18,074 |
| Trade receivables | 3,601,021 | – | – | – | 3,601,021 |
| Prepayments and other Receivables excluding prepayments | 6,494,290 | – | – | – | 6,494,290 |
| Restricted bank deposits and short-term bank deposits | 109,543 | – | – | – | 109,543 |
| Cash and cash equivalents | 617,422 | – | – | – | 617,422 |
| Total | 10,822,276 | – | 18,074 | 216,256 | 11,056,606 |

| | Loans and receivables RMB'000 | Liabilities at fair value through the profit and loss RMB'000 | Derivatives used for hedging RMB'000 | Other financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Balance, 31 December 2012 | | | | | |
| Borrowings | 35,423,131 | – | – | – | 35,423,131 |
| Obligations under finance leases | 17,476,210 | – | – | – | 17,476,210 |
| Derivative financial instruments | – | – | 340,151 | – | 340,151 |
| Trade payables and notes payable | 7,558,342 | – | – | – | 7,558,342 |
| Other payables and accrued expenses | 10,942,271 | – | – | – | 10,942,271 |
| Total | 71,399,954 | – | 340,151 | – | 71,740,105 |

## 42. SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 |
| Registered, issued and fully paid of RMB1.00 each | | |
| A shares listed on The Shanghai Stock Exchange ("A Shares") | **8,481,079** | 7,782,214 |
| – Tradable shares held by CEA Holding with trading moratorium (Note) | **241,548** | – |
| – Tradable shares held by CES Finance Holding Co., Ltd. with trading moratorium (Note) | **457,317** | – |
| – Tradable shares without trading moratorium | **7,782,214** | 7,782,214 |
| H shares listed on The Stock Exchange of Hong Kong Limited ("H Shares") | **4,193,190** | 3,494,325 |
| – Tradable shares held by CES Global Holding (Hong Kong) Limited with trading moratorium (Note) | **698,865** | – |
| – Tradable shares without trading moratorium | **3,494,325** | 3,494,325 |
| | **12,674,269** | 11,276,539 |

## 42. SHARE CAPITAL (continued)

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

Note:

Newly issued shares during 2013 are all shares with trading moratorium.

## 43. RESERVES

**Group**

| | Share Premium RMB'000 | Capital reserve (Note (a)) RMB'000 | Hedging reserve (Note 40) RMB'000 | Other reserve RMB'000 Restated | Accumulated losses RMB'000 Restated | Total RMB'000 Restated |
|---|---|---|---|---|---|---|
| At 1 January 2012 | 18,161,319 | (720,057) | (286,938) | (3,259,701) | (8,038,808) | 5,855,815 |
| Unrealised loss on cashflow hedges (Note 40) | – | – | (9,211) | – | – | (9,211) |
| Fair value movements of available of available-for-sale financial assets held by associates | – | – | – | 2,188 | – | 2,188 |
| Fair value movements of available-for-sale financial assets | – | – | – | (351) | – | (351) |
| Actuarial gain on post-retirement benefit obligations | – | – | – | 157,238 | – | 157,238 |
| Acquisition of non-controlling interests in subsidiaries | (490,151) | – | – | – | – | (490,151) |
| Profit attributable to equity shareholders of the Company | – | – | – | – | 3,071,514 | 3,071,514 |
| Others | 343,786 | – | – | – | – | 343,786 |
| At 31 December 2012 | 18,014,954 | (720,057) | (296,149) | (3,100,626) | (4,967,294) | 8,930,828 |
| At 1 January 2013 | **18,014,954** | **(720,057)** | **(296,149)** | **(3,100,626)** | **(4,967,294)** | **8,930,828** |
| Unrealised gain on cashflow hedges (Note 40) | **–** | **–** | **245,942** | **–** | **–** | **245,942** |
| Fair value movements of available-for-sale financial assets held by associates | **–** | **–** | **–** | **(2,931)** | **–** | **(2,931)** |
| Fair value movements of available-for-sale financial assets | **–** | **–** | **–** | **149,437** | **–** | **149,437** |
| Actuarial gain on post-retirement benefit obligations | **–** | **–** | **–** | **415,115** | **–** | **415,115** |
| Profit attributable to equity shareholders of the Company | **–** | **–** | **–** | **–** | **2,372,571** | **2,372,571** |
| Issue of shares | **2,174,661** | **–** | **–** | **–** | **–** | **2,174,661** |
| Others | **–** | **(57,576)** | **–** | **–** | **–** | **(57,576)** |
| At 31 December 2013 | **20,189,615** | **(777,633)** | **(50,207)** | **(2,539,005)** | **(2,594,723)** | **14,228,047** |

## 43. RESERVES (continued)

**Company**

| | Share Premium RMB'000 | Capital reserve (Note (a)) RMB'000 | Hedging reserve (Note 40) RMB'000 | Other reserve RMB'000 Restated | Accumulated losses RMB'000 Restated | Total RMB'000 Restated |
|---|---|---|---|---|---|---|
| At 1 January 2012 | 17,945,120 | (720,057) | (286,938) | (3,091,203) | (6,012,532) | 7,834,390 |
| Unrealised loss on cashflow hedges (Note 40) | – | – | (9,211) | – | – | (9,211) |
| Issue of shares | – | – | – | – | – | – |
| Actuarial gain on post-retirement benefit obligations | – | – | – | 177,935 | – | 177,935 |
| Profit for the year | – | – | – | – | 2,622,495 | 2,622,495 |
| Others | 343,786 | – | – | – | – | 343,786 |
| At 31 December 2012 | 18,288,906 | (720,057) | (296,149) | (2,913,268) | (3,390,037) | 10,969,395 |
| At 1 January 2013 | 18,288,906 | (720,057) | (296,149) | (2,913,268) | (3,390,037) | 10,969,395 |
| Unrealised gain on cashflow hedges (Note 40) | – | – | 245,942 | – | – | 245,942 |
| Issue of shares | 2,174,661 | – | – | – | – | 2,174,661 |
| Actuarial gain on post-retirement benefit obligations | – | – | – | 521,682 | – | 521,682 |
| Profit for the year | – | – | – | – | 831,774 | 831,774 |
| Fair value movements of available-for-sale financial assets | – | – | – | 138,393 | – | 138,393 |
| At 31 December 2013 | 20,463,567 | (720,057) | (50,207) | (2,253,193) | (2,558,263) | 14,881,847 |

Note:

(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.

## 44. ASSETS CLASSIFIED AS HELD FOR SALE

In December 2012, the Group entered into an agreement with a third party to dispose certain aircraft and related engines. The aircraft and engines with an aggregated carrying value of RMB344 million (after the impairment loss charge) ceased operation in 2013 and have been recognised as assets classified as held for sale at 31 December 2013. An impairment loss of approximately RMB50 million was made against these aircraft and engines by reference to the contracted selling price less estimated cost to sell (Note 10) for the year ended 31 December 2013.

# 45. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

## (a) Cash generated from operations

| | 2013<br>RMB'000 | 2012<br>RMB'000<br>Restated |
|---|---|---|
| Profit before income tax | 2,217,100 | 3,136,588 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment and intangible assets | 8,174,278 | 7,509,252 |
| Gain on disposals of property, plant and equipment | (316,184) | (101,196) |
| Gain on disposals of investment in associates | (8,555) | – |
| Share of results of associates | (38,335) | (103,209) |
| Share of results of jointly ventures | (26,588) | (29,960) |
| Amortisation of lease prepayments | 51,920 | 47,658 |
| Net foreign exchange gains | (1,976,329) | (147,836) |
| Gain arising from fair value movements of derivative financial instruments | (16,263) | (15,755) |
| Consumption of flight equipment spare parts | 787,423 | 747,268 |
| Impairment reversal for trade and other receivables | (1,577) | (6,872) |
| Provision for post-retirement benefits | 182,789 | 581,775 |
| Provision for return condition checks for aircraft under operating leases | 871,616 | 792,770 |
| Impairment charge/(reversal) | 185,857 | (13,467) |
| Interest income | (148,111) | (200,765) |
| Interest expense | 1,548,622 | 1,697,474 |
| **Operating profit before working capital changes** | 11,487,663 | 13,893,725 |
| **Changes in working capital** | | |
| Flight equipment spare parts | (984,471) | (1,176,365) |
| Trade receivables | (557,376) | (427,908) |
| Prepayments and other receivables | (2,028,252) | (99,757) |
| Restricted bank deposits and short-term bank deposits | 1,343,188 | 1,168,036 |
| Sales in advance of carriage | 440,104 | (103,222) |
| Trade and bills payable | 387,691 | 387,615 |
| Other payables and accrued expenses | 1,538,610 | 179,263 |
| Other long-term liabilities | (94,313) | (383,759) |
| Provision for return condition checks for aircraft under operating leases | (453,212) | (293,134) |
| Staff housing allowances | (10,839) | 40,361 |
| Post-retirement benefit obligations | (171,468) | (304,057) |
| Operating lease deposits | 223,169 | (57,963) |
| Cash generated from operations | 11,120,494 | 12,822,835 |

## (b) Non-cash transactions

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Financing activities not affecting cash: | | |
| Finance lease obligations incurred for acquisition of aircraft | 4,524,879 | 5,712,958 |

## 46. COMMITMENTS

### (a) Capital commitments

The Group and the Company had the following capital commitments:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Authorised and contracted for: | | | | |
| – Aircraft, engines and flight equipment (Note) | **140,639,542** | 172,092,301 | **138,084,675** | 167,275,050 |
| – Other property, plant and equipment | **1,649,106** | 1,125,000 | **1,559,106** | 1,125,000 |
| – Investment | **38,402** | – | **38,402** | 525,000 |
| | **142,327,050** | 173,217,301 | **139,682,183** | 168,925,050 |
| Authorised but not contracted for: | | | | |
| – Other property, plant and equipment | **3,421,499** | 3,132,616 | **1,883,718** | 1,749,353 |
| – Investment | **–** | 124,800 | **420,000** | 649,800 |
| | **3,421,499** | 3,257,416 | **2,303,718** | 2,399,153 |
| | **145,748,549** | 176,474,717 | **141,985,901** | 171,324,203 |

Note:

Contracted expenditures for the above aircraft, engines and flight equipment, including deposits prior to delivery, subject to future inflation increases built into the contracts were expected to be paid as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | **44,673,462** | 26,320,538 | **42,836,455** | 24,137,187 |
| In the second year | **50,178,735** | 44,435,072 | **49,460,875** | 42,541,238 |
| In the third year | **27,753,646** | 51,730,954 | **27,753,646** | 50,990,886 |
| In the fourth year | **13,486,290** | 28,830,539 | **13,486,290** | 28,830,539 |
| Over four years | **4,547,409** | 20,775,198 | **4,547,409** | 20,775,200 |
| | **140,639,542** | 172,092,301 | **138,084,675** | 167,275,050 |

## 46. COMMITMENTS (continued)

### (b) Operating lease commitments

As at the reporting period date, the Group and the Company had commitments under operating leases to pay future minimum lease rentals as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Aircraft, engines and flight equipment** | | | | |
| Within one year | 4,201,333 | 3,833,550 | 1,571,317 | 1,311,104 |
| In the second year | 3,698,437 | 3,504,777 | 1,351,686 | 1,171,718 |
| In the third to fifth year inclusive | 8,651,235 | 7,900,135 | 3,282,584 | 2,911,533 |
| After the fifth year | 5,581,285 | 6,438,693 | 409,513 | 1,464,294 |
| | 22,132,290 | 21,677,155 | 6,615,100 | 6,858,649 |
| **Land and buildings** | | | | |
| Within one year | 275,594 | 240,084 | 115,319 | 92,902 |
| In the second year | 181,125 | 176,726 | 53,222 | 51,588 |
| In the third to fifth year inclusive | 414,552 | 413,229 | 61,103 | 102,227 |
| After the fifth year | 2,178,765 | 2,072,525 | 6,452 | 12,448 |
| | 3,050,036 | 2,902,564 | 236,096 | 259,165 |
| | 25,182,326 | 24,579,719 | 6,851,196 | 7,117,814 |

## 47. RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which directly owns 40.03% of the Company's shares as at 31 December 2013 (2012: 42.84%). In addition, through CES Global Holding (Hong Kong) Limited, a wholly owned subsidiary of CEA Holding, CEA Holding owns 20.72% of the Company's shares as at 31 December 2013 (2012: 17.09%).

### (a) Nature of related parties that do not control or controlled by the Group:

| Name of related party | Relationship with the Group |
|---|---|
| Eastern Finance | Controlled by the same parent company |
| Kunming Dongmei Aviation Travel Co., Ltd. ("Kunming Dongmei") | Controlled by the same parent company |
| Dongmei Travel | Associate of the Company |
| Xian Dongmei Aviation Travel Co., Ltd. ("Xian Dongmei") | Controlled by the same parent company |
| Eastern Import & Export | Associate of the Company |
| Wheels & Brakes | Joint controlled entity of the Company |
| Technologies Aerospace | Joint controlled entity of the Company |
| Shanghai P&W | Associate of the Company |
| Shanghai Eastern Air Catering Co., Ltd. ("Shanghai Catering") | Controlled by the same parent company |
| Eastern Advertising | Associate of the Company |
| CEA Development Co., Ltd. ("CEA Development") | Controlled by the same parent company |
| Shanghai Hute Aviation Tech. Co., Ltd. ("Shanghai Hute") | Controlled by the same parent company |
| Shanghai Hang Lv International Freight Forwarding Co., Ltd. ("Hang Lv International Freight Forwarding") | Controlled by the same parent company |
| Eastern China Kaiya System Integration ("China Kaiya") | Controlled by the same parent company |
| Shanghai Aviation Import & Export Co., Ltd. ("Shanghai Import & Export") | Associate of the Company |
| Shanghai Eastern Airlines Investment Co., Ltd. ("Eastern Investment") | Associate of the Company |
| Eastern Air Tourism Investment Group Co., Ltd. ("Eastern Tourism") | Controlled by the same parent company |
| Jetstar | Associate of the Company |

## 47. RELATED PARTY TRANSACTIONS (continued)

### (b) Related party transaction

| Nature of transactions | Related party | Pricing policy and decision process | Income/(expense or payments) 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|---|
| **With CEA Holding or companies directly or indirectly held by CEA Holding:** | | | | |
| Interest income on deposits at an average rate of 0.35% per annum (2012: 0.39% per annum) | Eastern Finance | (iv) | **25,352** | 45,996 |
| Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold | Dongmei Travel | (ii) | **(9,836)** | (12,438) |
| | Kunming Dongmei | (ii) | **–** | (4,858) |
| | Xian Dongmei | (ii) | **–** | (2,540) |
| Handling charges of 0.1% to 2% 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) | **(105,293)** | (78,756) |
| Repairs and maintenance expense for aircraft and engines | Wheels & Brakes | (ii) | **(72,363)** | (58,483) |
| | Technologies Aerospace | (ii) | **(142,163)** | (194,528) |
| | Shanghai P&W | (ii) | **(1,659,500)** | (2,009,050) |
| Supply of food and beverages | Shanghai Catering and its subsidiaries | (i) | **(919,051)** | (783,384) |
| Advertising expense | Eastern Advertising | (ii) | **(10,099)** | (38,846) |
| Media royalty fee | Eastern Advertising | (iii) | **14,908** | 36,030 |
| Automobile maintenance service, aircraft maintenance, providing transportation automobile and other products | CEA Development | (ii) | **(142,569)** | (121,854) |
| Equipment maintenance fee | Shanghai Hute | (ii) | **(68,653)** | (47,205) |
| Land and building rental | CEA Holding | (ii) | **(59,141)** | (66,763) |
| Acquisition of a subsidiary | Eastern Tourism | (v) | **(11,876)** | – |
| Acquisition of non-controlling interests in subsidiaries | CEA Holding | | **–** | (83,952) |
| | Shanghai Import & Export | (v) | **–** | (20,694) |
| Acquisition of non-controlling interests in associates | Eastern Tourism | (v) | **–** | (13,851) |
| Disposal of investment in an associate | Eastern Investment | (v) | **–** | 93,680 |

## 47. RELATED PARTY TRANSACTIONS (continued)

### (b) Related party transaction (continued)

(i) The Group's pricing policies on products purchased from related parties are mutually agreed based on market prices between contract parties.

(ii) The Group's pricing policies on services provided by related parties are mutually agreed based on the market prices between contract parties.

(iii) The Group's pricing policies on services provided to related parties are mutually agreed based on the market prices between contract parties.

(iv) The Group's pricing policies on related party interest rate are mutually agreed based on benchmark interest rates between contract parties.

(v) The Company's pricing policies on transfer of equity or dispose of investment are based on the valuation prices.

### (c) Balances with related companies

**(i) Amounts due from related companies**

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Trade receivables** | | | | |
| Kunming Dongmei | – | 4,213 | – | – |
| Hang Lv International Freight Forwarding | 793 | – | – | – |
| China Cargo | – | – | 1,412,611 | 2,181,624 |
| Others | 672 | 4,308 | 81,898 | 6,305 |
| | 1,465 | 8,521 | 1,494,509 | 2,187,929 |
| **Prepayments and other receivable** | | | | |
| Eastern Import & Export | 169,081 | 370,125 | 46,821 | 309,119 |
| China Kaiya | 13,960 | 19,694 | 13,685 | 19,694 |
| Shanghai Airlines | – | – | 6,286,777 | 2,245,339 |
| China Cargo | – | – | 459,177 | 748,386 |
| United Airlines | – | – | 167,339 | 638,234 |
| CEA Yunnan | – | – | 438,399 | 462,702 |
| CEA Wuhan | – | – | 172,207 | 34,518 |
| Others | 18,391 | 13,025 | 151,892 | 119,560 |
| | 201,432 | 402,844 | 7,736,297 | 4,577,552 |

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

# 47. RELATED PARTY TRANSACTIONS (continued)

## (c) Balances with related companies (continued)

### (ii) Amounts due to related companies

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Trade and bills payable** | | | | |
| Eastern Import & Export | 942,442 | 1,210,603 | 860,846 | 852,156 |
| Shanghai P&W | 4 | 467,885 | 4 | 422,574 |
| Shanghai Catering | 3,916 | 134,696 | 2,640 | 119,953 |
| Technologies Aerospace | 29,480 | 63,136 | 2,335 | 60,201 |
| China Cargo | – | – | 928,734 | 1,736,158 |
| CEA Yunnan | – | – | 514,732 | 1,264,452 |
| Shanghai Airlines | – | – | 1,599,575 | 947,158 |
| CEA Jiangsu | – | – | 457,512 | 757,453 |
| United Airlines | – | – | 632,595 | 724,879 |
| Others | 20,577 | 73,324 | 381,101 | 289,818 |
| | 996,419 | 1,949,644 | 5,380,074 | 7,174,802 |
| **Other payables and accrued expenses** | | | | |
| Eastern Import & Export | 44,748 | 96,861 | 44,748 | 96,811 |
| Shanghai P&W | 322,986 | – | 238,302 | – |
| Shanghai Catering | 223,850 | – | 4,520 | – |
| CEA Holding | 62,887 | 73,020 | 62,887 | 72,997 |
| Eastern Air Overseas HK | – | – | 4,522,460 | 1,557,295 |
| China Cargo | – | – | 166,363 | 220,054 |
| United Airlines | – | – | 152,278 | 188,379 |
| Shanghai Airlines | – | – | 181,033 | 93,955 |
| Others | 48,109 | 25,003 | 56,716 | 182,737 |
| | 702,580 | 194,884 | 5,429,307 | 2,412,228 |

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

## 47. RELATED PARTY TRANSACTIONS (continued)

### (c) Balances with related companies (continued)

#### (iii) Short-term deposits and borrowings with associates and CEA Holding

| | Average interest rate | | Group | | Company | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Short-term deposits (included in restricted bank deposits and short-term bank deposits) "**Eastern Finance**" | **0.39%** | 0.39% | **620,364** | 1,451,526 | **265,090** | 3,713 |
| Short-term loans (included in borrowings) "**Eastern Finance**" | **4.01%** | 4.98% | **1,421,070** | 675,426 | **800,000** | – |
| Long-term loans (included in borrowings) "**Eastern Finance**" | **5.76%** | 5.64% | **165,000** | 165,000 | **–** | – |

### (d) Guarantees by holding company

As at 31 December 2013, bank loans of the Group guaranteed by CEA Holding were nil (2012: RMB95 million) (Note 34).

### (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:

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Directors and supervisors (Note 9(a)) | **3,928** | 3,393 |
| Senior management | **3,331** | 2,742 |
| | **7,259** | 6,135 |

Those key management are entitled to the Group's post-retirement benefit plan, whose amount is not included in the compensation as set out above.

## 48. ULTIMATE HOLDING COMPANY

The Directors regard CEA Holding, a state-owned enterprise established in the PRC, as being the ultimate holding company.

## 49. EVENTS AFTER THE REPORTING PERIOD

(a) On 28 February 2014, the Company entered into a purchase agreement with Airbus SAS to purchase seventy brand new Airbus A320NEO aircraft. The Airbus aircraft are expected to be delivered to the Company in stages from 2018 to 2020.

(b) On 28 February 2014, the Company entered into a disposal agreement with Airbus SAS to dispose its even Airbus A300-600 aircraft and certain spare parts and spare engines.

(c) On 6 March 2014, the Company issued RMB2.5 billion of 4.8% guaranteed bonds due 13 March 2017. The closing date was 13 March 2014. The bonds will mature on 13 March 2017. The issue was approved by the shareholders during the Company's 29 June 2011 meeting.

(d) According to the meeting of board of directors held on 26 March 2014, it was agreed that the Company would inject share capital of RMB375 million in Eastern Air Group Finance Company limited based on the exiting shareholding structure and proportion and the President of the Company was authorised to implement.

## 50. COMPARATIVE AMOUNTS

As further explained in note 2(a)(ii), due to the adoption of revised IFRS during the current year, the accounting treatment and presentation of certain items and balances in the financial statements as of 31 December 2012 and for the year then ended were revised to comply with the new requirements. A third statement of financial position as at 1 January 2012 is presented in accordance with IAS1. Furthermore, certain comparative amounts were reclassified to conform with the current year presentation.

# Supplementary Financial Information



The following consolidated financial information is extracted from the consolidated financial statements of the Group, prepared under the PRC Accounting Standards.

## Consolidated Profit or Loss

*(Prepared in accordance with PRC Accounting Standards)*
*For the year ended 31 December 2013*

| | 2013 RMB'000 | 2012 RMB'000 Restated |
|---|---|---|
| **Revenue** | 88,009,236 | 86,409,257 |
| Less: Cost of operation | (80,338,644) | (75,539,288) |
| Taxes and surcharges | (306,374) | (670,131) |
| Selling and distribution expenses | (5,909,724) | (5,443,022) |
| General and administrative expense | (2,838,612) | (3,021,007) |
| Finance expenses, net | 440,300 | (1,464,341) |
| Impairment loss | (183,866) | 19,927 |
| Add: Fair value gain | 18,338 | 24,831 |
| Investment income | 68,053 | 234,058 |
| **Operating profit** | (1,041,293) | 550,284 |
| Add: Non-operating income | 3,319,400 | 2,711,511 |
| Less: Non-operating expenses | (57,541) | (23,239) |
| **Total profit** | 2,220,566 | 3,238,556 |
| Less: Income tax | (124,281) | (207,692) |
| **Net profit** | 2,096,285 | 3,030,864 |
| **Attribute to:** | | |
| – Equity shareholders of the Company | 2,376,037 | 3,173,196 |
| – Non-controlling interests | (279,752) | (142,332) |
| | 2,096,285 | 3,030,864 |

# Condensed Consolidated Statement of Financial Position

*(Prepared in accordance with PRC Accounting Standards)*
*For the year ended 31 December 2013*

| | 2013 RMB'000 | 2012 RMB'000 Restated |
|---|---|---|
| **Assets** | | |
| Current assets | 12,609,920 | 12,751,731 |
| Long-term investment | 1,497,432 | 1,251,631 |
| Fixed assets and construction in progress | 109,029,447 | 94,360,818 |
| Goodwill | 9,027,595 | 9,027,595 |
| Intangible assets and non-current assets | 5,222,653 | 4,154,195 |
| Deferred tax assets | 389,466 | 124,658 |
| **Total assets** | 137,776,513 | 121,670,628 |
| **Liabilities and equity** | | |
| Current liabilities | 53,081,703 | 49,000,253 |
| Non-current liabilities | 58,374,537 | 53,196,817 |
| Deferred tax liabilities | 29,550 | 29,326 |
| **Total Liabilities** | 111,485,790 | 102,226,396 |
| Equity shareholders of the Company | 24,616,699 | 17,922,345 |
| Non-controlling interests | 1,674,024 | 1,521,887 |
| **Total equity** | 26,290,723 | 19,444,232 |
| **Total liabilities and equity** | 137,776,513 | 121,670,628 |

## (A) Significant Differences between International Financial Reporting Standards ("IFRS") and PRC Accounting Standards

The Group'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 equity shareholders of the Company and consolidated net assets attributable to equity shareholders of the Company are summarised as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000<br>Restated |
|---|---|---|
| **Consolidated profit attributable to equity shareholders of the Company** | | |
| As stated in accordance with PRC Accounting Standards | 2,376,037 | 3,173,196 |
| Impact of IFRS and other adjustments: | | |
| – Intangible assets(goodwill)(a) | – | – |
| – Difference in depreciation charges for aircraft and engines due to different depreciation lives and revaluation(b) | (3,466) | (21,958) |
| – Adjustment of business combination under common control | – | (332) |
| – Others | – | (79,392) |
| As stated in accordance with IFRS | 2,372,571 | 3,071,514 |

| | 2013<br>RMB'000 | 2012<br>RMB'000<br>Restated |
|---|---|---|
| **Consolidated net assets attributable to equity shareholders of the Company** | | |
| As stated in accordance with PRC Accounting Standards | 24,616,699 | 17,922,345 |
| Impact of IFRS and other adjustments: | | |
| – Intangible assets(good will)(a) | 2,242,100 | 2,242,100 |
| – Difference in depreciation charges for aircraft and engines due to different depreciation lives and revaluation(b) | 49,435 | 52,901 |
| – Adjustment of business combination under common control | – | (4,061) |
| – Non-controlling interests(c) | (5,918) | (5,918) |
| As stated in accordance with IFRS | 26,902,316 | 20,207,367 |

(a) 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.

(b) 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%. 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% 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.

(c) This difference results from the influence of above items on Non-controlling interests.

# Corporate Information



## DIRECTORS

Liu Shaoyong *(Chairman)*
Ma Xulun *(Vice Chairman, President)*
Xu Zhao *(Director)*
Gu Jiadan *(Director)*
Li Yangmin *(Director, Vice President)*
Tang Bing *(Director, Vice President)*
Sandy Ke-Yaw Liu *(Independent Non-executive Director)*
Ji Weidong *(Independent Non-executive Director)*
Shao Ruiqing *(Independent Non-executive Director)*
Li Ruoshan *(Independent Non-executive Director)*
Ma Weihua *(Independent Non-executive Director)*

## SUPERVISORS

Yu Faming *(Chairman of the Supervisory Committee)*
Xi Sheng *(Supervisor)*
Ba Shengji *(Supervisor)*
Feng Jinxiong *(Supervisor)*
Yan Taisheng *(Supervisor)*

## SENIOR MANAGEMENT

Wu Yongliang *(Vice President, Chief Financial Officer)*
Tian Liuwen *(Vice President)*
Feng Liang *(Vice President)*
Sun Youwen *(Vice President)*
Wang Jian *(Board Secretary, Joint Company Secretary)*

Note: Mr. Shu Mingjiang ceased to be a vice president of the Company and Mr. Sun Youwen was appointed as a vice president of the Company, with effect from 24 March 2014.

## COMPANY SECRETARY

Wang Jian
Ngai Wai Fung

## AUTHORISED REPRESENTATIVES

Liu Shaoyong
Wang Jian

## COMPANY'S WEBSITE ADDRESS

http://www.ceair.com

## COMPANY'S E-MAIL ADDRESS

ir@ceair.com

## COMPANY'S OFFICE ADDRESS

2550 Hongqiao Road, Shanghai, China

## COMPANY'S STOCK INFORMATION

| | | |
|---|---|---|
| A Shares Place of listing: The Shanghai Stock Exchange | Abbreviation: CEA | Code: 600115 |
| H Shares Place of listing: The Stock Exchange of Hong Kong | Abbreviation: CEA | Code: 00670 |
| ADR Place of listing: NYSE | Abbreviation: China Eastern | Code: CEA |

## AUDITORS

| | |
|---|---|
| Auditor for Hong Kong financial report: | Ernst & Young<br>28/F, CITIC Tower, 1 Tim Mei Avenue,<br>Central, Hong Kong |
| Auditor for domestic and USA financial reports: | Ernst & Young Hua Ming LLP<br>Level 16, Ernst & Young Tower, Tower E3, Oriental Plaza,<br>No. 1 East Chang An Avenue, Dong Cheng District,<br>Beijing, China |

## LEGAL ADVISERS

Hong Kong: Baker & McKenzie
USA: Baker & McKenzie
China: Beijing Commerce & Finance Law Office

## PRINCIPAL BANKS

Industrial and Commercial Bank of China, Shanghai Branch
China Construction Bank, Shanghai Branch
The Bank of China, Shanghai Branch

## SHARE REGISTRAR

Hong Kong Registrars Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

The Bank of New York
101 Barclay Street
New York, NY 10286 USA

China Securities Depository and Clearing Corporation Limited, Shanghai Branch
166 East Lu Jiazui Road, Pudong New Area, Shanghai

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 31/F., United Centre, 95 Queensway, Hong Kong

## CUSTODIAN FOR LISTED SHARES WITH TRADING MORATORIUM

China Securities Depository and Clearing Corporation Limited, Shanghai Branch

## CHANGE OF BUSINESS LICENSE REGISTRATION

The Company changed its business license registration due to changes in the registered capital of the Company.

| | |
|---|---|
| Registered capital of the Company: | RMB12,674,268,860 |
| Registered address of the Company: | 66 Airport Street, Pudong International Airport, Shanghai, China |
| Business License Registration Number of the Corporation Legal Person: | 310000400111686 (Airport) |
| Tax Registration Number: | 310043741602981 |
| Organization code: | 74160298-1 |

This annual report is printed on environmentally friendly paper.
此年度報告以環保紙張印製。

中國東方航空股份有限公司
CHINA EASTERN AIRLINES CORPORATION LIMITED

www.ceair.com