

CHINA EASTERN AIRLINES CORP LTD  
Form 20-F  
April 25, 2016

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

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
x 1934**  
**For the fiscal year ended December 31, 2015**

**OR**

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

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

Commission file number 1-14550

(Exact Name of Registrant as Specified in Its Charter)

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

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Shanghai, 200335

People's Republic of China

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(Address and Contact Details of the Board Secretariat's Office)

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

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

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

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2015, 8,481,078,860 Ordinary Domestic Shares, par value RMB1.00 per share, were issued and outstanding, and 4,659,100,000 Ordinary H Shares par value RMB1.00 per share, were issued and outstanding. H Shares are Ordinary Shares of the Company listed on The Stock Exchange of Hong Kong Limited. Each American Depositary Share represents 50 Ordinary H Shares.

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of *Regulation S-T* during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## **SUPPLEMENTAL INFORMATION AND EXCHANGE RATES**

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

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

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

See "Item 3. Key Information — Exchange Rate Information" for details of exchange rates.

## **CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS**

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

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

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

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

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

- changes in political, economic, legal and social conditions in China;
- any changes in the regulatory policies of the CAAC;
- the development of the high-speed rail network in the PRC;



- fluctuations of interest rates and foreign exchange rates;
  
- the availability of qualified flight personnel and airport facilities;
  
- the effects of competition on the demand for and price of our services;
  
- the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;
  
- fluctuations of interest rates and foreign exchange rates;
  
- any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of our borrowings are denominated;
  
- our ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and
  
- general economic conditions in markets where our Company operates.

## GLOSSARY OF TECHNICAL TERMS

### *Capacity measurements*

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

### *Traffic measurements*

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

### *Load factors*

<b>overall load factor</b>	tonne-kilometers expressed as a percentage of ATK
<b>passenger load factor</b>	passenger-kilometers expressed as a percentage of ASK

### *Yield and cost measurements*

<b>passenger yield (revenue per passenger-kilometer)</b>	revenue from passenger operations divided by passenger-kilometers
<b>cargo yield (revenue per cargo tonne-kilometer)</b>	revenue from cargo operations divided by cargo tonne-kilometers
<b>average yield (revenue per total tonne-kilometer)</b>	revenue from airline operations divided by tonne-kilometers
<b>unit cost</b>	operating expenses divided by ATK
<b>Tonne</b>	a metric ton, equivalent to 2,204.6 lbs

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not applicable.

### **Item 3. Key Information**

#### **A. Selected Financial Data**

Pursuant to U.S. Securities and Exchange Commission (“SEC” or “Securities and Exchange Commission”) Release 33-8879 *“Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP”* eliminating the requirement for foreign private issuers to reconcile their financial statements to U.S. GAAP, we prepare our financial statements based on International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or the IASB, and no longer provide a reconciliation between IFRS and U.S. GAAP.

Our consolidated financial statements as of December 31, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015 included in this Annual Report on Form 20-F have been prepared in accordance with IFRS.

We make an explicit and unreserved statement of compliance with IFRS with respect to our consolidated financial statements as of December 31, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015 included in this Annual Report. Ernst & Young, our current independent registered public accounting firm in Hong Kong, has issued an unqualified auditors' report on our consolidated statement of financial position as of December 31, 2014 and 2015 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2015. The selected financial data from the consolidated profit or loss and other comprehensive income for the years ended December 31, 2014 and 2015 and the selected financial data from the consolidated financial position as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS, and audited by Ernst & Young, an independent registered public accounting firm in Hong Kong. The selected financial data from the consolidated profit or loss and other comprehensive income for the year ended December 31, 2013 and the selected financial data from the consolidated financial position as of December 31, 2013 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS, and audited by Ernst & Young Hua Ming LLP, an independent registered public accounting firm in the PRC. The selected financial data from the consolidated income statements for the years ended December 31, 2011 and 2012 and the selected financial data from the balance sheets as of December 31, 2011 and 2012 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS, and audited by PricewaterhouseCoopers, an independent registered public accounting firm in Hong Kong.

The following tables present selected consolidated profit or loss and comprehensive income data for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 and selected consolidated statements of financial position data as of December 31, 2011, 2012, 2013, 2014 and 2015 that were prepared under IFRS. The selected financial information as of December 31, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015 has been derived from, and should be read in conjunction with, the audited consolidated financial statements and their notes included elsewhere in this Annual Report.

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	RMB	RMB	RMB	RMB	RMB
	(in millions, except per share or per ADS data)				
Consolidated Statements of Profit or Loss and Other Comprehensive Income Data:					
Revenues	82,403	85,253	88,245	90,185	93,969
Gain on fair value changes of derivative financial instruments	87	25	18	11	6
Other operating income and gains	1,062	1,833	2,725	3,685	5,269
Operating expenses	(79,288)	(82,759)	(89,412)	(87,823)	(86,619)
Operating profit	4,264	4,352	1,576	6,058	12,625
Finance income / (costs), net	561	(1,349)	576	(2,072)	(7,110)
Profit before income tax	4,932	3,137	2,217	4,113	5,667
Profit for the year attributable to the equity holders of the Company	4,661	3,072	2,373	3,410	4,537
Basic and fully diluted earnings per share <sup>(1)</sup>	0.41	0.27	0.20	0.27	0.35
Basic and fully diluted earnings per ADS	20.67	13.62	9.81	13.45	17.5

The calculation of earnings per share for 2011 and 2012 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 11,276,538,860 ordinary shares in issue. The calculation of earnings per share for 2013 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,091,881,000 ordinary shares in issue. The calculation of earnings per share for 2014 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,674,269,000 ordinary shares in issue. The calculation of earnings per share for 2015 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,818,509,000 ordinary shares in issue.

	As of December 31,				
	2011 RMB	2012 RMB	2013 RMB	2014 RMB	2015 RMB
	(in millions)				
Consolidated Statements of Financial Position Data:					
Cash and cash equivalents	3,861	2,512	1,995	1,355	9,080
Net current liabilities	(29,679 )	(35,948 )	(40,472 )	(42,887 )	(51,309 )
Non-current assets	101,092	111,214	127,458	147,586	174,914
Long term borrowings, including current portion	(30,321 )	(32,856 )	(36,175 )	(41,210 )	(43,675 )
Obligations under finance leases, including current portion	(20,261 )	(21,858 )	(23,135 )	(38,695 )	(52,399 )
Total share capital and reserves attributable to the equity holders of the Company	17,132	20,207	26,902	29,974	37,411
Non-current liabilities	(52,687 )	(53,530 )	(58,404 )	(72,928 )	(83,674 )
Total assets less current liabilities	71,413	75,266	86,986	104,699	123,605

## Exchange Rate Information

We present our historical consolidated financial statements in Renminbi. For the convenience of the reader, certain pricing information is presented in U.S. dollars and certain contractual and other amounts that are in Renminbi or Hong Kong dollars amounts include a U.S. dollar equivalent. Unless otherwise noted, all translations from RMB to U.S. dollars, from Hong Kong dollars to U.S. dollars, from U.S. dollars to RMB and from U.S. dollars to Hong Kong dollars in this Annual Report were made at the rate of RMB6.4778 to US\$1.00 and HK\$7.7507 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Board on December 31, 2015. We make no representation that the Renminbi, Hong Kong dollar or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars, Hong Kong dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

On April 15, 2016, the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board were RMB6.4730=US\$1.00 and HK\$7.7547=US\$1.00. The following table sets forth information concerning exchange rates between the RMB, Hong Kong dollar and the U.S. dollar for the periods indicated. The source of these rates is the Federal Reserve Statistical Release.

	RMB per US\$1.00 <sup>(1)</sup>		HK\$ per US\$1.00 <sup>(1)</sup>	
	High	Low	High	Low
January 2014	6.0600	6.0402	7.7663	7.7534
February 2014	6.1448	6.0591	7.7645	7.7550
March 2014	6.2273	6.1183	7.7669	7.7563
April 2014	6.2591	6.1966	7.7568	7.7517
May 2014	6.2591	6.2255	7.7535	7.7514
June 2014	6.2548	6.2036	7.7537	7.7502
July 2014	6.2115	6.1712	7.7517	7.7495
August 2014	6.1793	6.1395	7.7514	7.7496
September 2014	6.1495	6.1266	7.7650	7.7500
October 2014	6.1385	6.1107	7.7645	7.7541
November 2014	6.1429	6.1117	7.7572	7.7519
December 2014	6.2256	6.1490	7.7616	7.7509
January 2015	6.2535	6.1870	7.7563	7.7508
February 2015	6.2695	6.2399	7.7584	7.7517
March 2015	6.2741	6.1955	7.7685	7.7534
April 2015	6.2185	6.1927	7.7525	7.7495
May 2015	6.2086	6.1958	7.7594	7.7505
June 2015	6.2086	6.1976	7.7567	7.7513
July 2015	6.2097	6.2008	7.7553	7.7502

August 2015	6.4122	6.2086	7.7627	7.7496
September 2015	6.3836	6.3544	7.7511	7.7495
October 2015	6.3591	6.3180	7.7503	7.7495
November 2015	6.3945	6.3180	7.7526	7.7498
December 2015	6.4896	6.3883	7.7527	7.7496
January 2016	6.5932	6.5219	7.8270	7.7505
February 2016	6.5795	6.5154	7.7969	7.7700
March 2016	6.5500	6.4480	7.7745	7.7528
April 2016 (up to April 15, 2016)	6.4810	6.4580	7.7569	7.7537

The following table sets forth the average rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of the periods indicated. The exchange rate refers to the exchange rate as set forth in the G. 5A statistical release of the Federal Reserve Board.

	<b>RMB per US\$1.00</b> <sup>(1)</sup>	<b>HK\$ per US\$1.00</b>
2011	6.4630	7.7841
2012	6.3093	7.7569
2013	6.1478	7.7565
2014	6.1620	7.7545
2015	6.2827	7.7524

Source: *Federal Reserve Statistical Release*

<sup>(1)</sup> Averages are based on daily noon buying rates for cable transfers in New York City certified for customs purposes by the Federal Reserve Bank of New York.

**Selected Operating Data**

The following table sets forth certain operating data of our Company for the five years ended December 31, 2015, which are not audited. All references in this Annual Report to our cargo operations, statistics or revenues include figures for cargo and mail.

	Year Ended December 31,				
	2011	2012	2013	2014	2015
<b>Selected Airline Operating Data:</b>					
<b>Capacity:</b>					
ATK (millions)	18,662.5	19,721.4	21,714.8	22,538.5	25,203.0
ASK (millions)	127,890.8	136,724.0	152,075.2	160,585.1	181,792.9
AFTK (millions)	7,152.3	7,416.3	8,028.0	8,085.8	8,841.7
<b>Traffic:</b>					
Revenue passenger-kilometers (millions)	100,895.1	109,112.7	120,461.1	127,749.9	146,342.43
Revenue tonne-kilometers (millions)	13,402.1	14,406.5	15,551.8	16,122.4	17,820.4
Revenue freight tonne-kilometers (millions)	4,420.6	4,700.9	4,857.2	4,802.4	4,865.1
Hours flown (thousands)	1,288.4	1,404.5	1,540.4	1,625.1	1,804.9
Number of passengers carried (thousands)	68,725.0	73,077.1	79,093.7	83,811.5	93,780.0
Weight of cargo carried (millions of kilograms)	1,443.1	1,416.5	1,410.3	1,363.3	1,399.4
<b>Load Factor:</b>					
Overall load factor (%)	71.8	73.1	71.6	71.5	70.7
Passenger load factor (%)	78.9	79.8	79.2	79.6	80.5
<b>Yield and Cost Statistics (RMB):</b>					
Passenger yield (passenger revenue/ passenger-kilometers)	0.68	0.65	0.61	0.61	0.56
Cargo yield (cargo revenue/cargo tonne-kilometers)	1.83	1.71	1.57	1.55	1.33
Average yield (passenger and cargo revenue/ tonne-kilometers)	5.71	5.51	5.18	5.28	4.94
Unit cost (operating expenses/ATK)	4.24	4.20	4.12	3.90	3.44

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.



**D. Risk Factors**

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## **Risks Relating to the PRC**

***Changes in the economic policies of the PRC government may materially affect our business, financial condition and results of operations.***

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

***Changes in the foreign exchange regulations in the PRC may result in fluctuations of the Renminbi and adversely affect our ability to pay dividends or to satisfy our foreign currency liabilities.***

A significant portion of our revenue and operating expenses are denominated in Renminbi, while a portion of our revenue, capital expenditures and debts are denominated in U.S. dollars and other foreign currencies. The Renminbi is currently freely convertible in the current account, which includes payment of dividends, trade and service-related foreign currency transactions, but not in the capital account, which includes foreign direct investment, unless approval from or registration or filing with the relevant authorities, is obtained. As a foreign invested enterprise approved by the PRC Ministry of Commerce (the "MOFCOM"), we can purchase foreign currencies without the approval of State Administration of Foreign Exchange (the "SAFE") for settlement of current account transactions, including for the purpose of dividend payment, by providing commercial documents evidencing these transactions. We can also retain foreign currencies in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or pay dividends. The relevant PRC government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions in the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to raise foreign capital through debt or equity financing, including by means of loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign currencies to pay dividends, if any, or satisfy our foreign currency liabilities.

Furthermore, the value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the PRC government policies, domestic and international economic and political conditions and changes in the supply and demand of the currency. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in appreciation of the Renminbi against the U.S. dollar by approximately 7.0% in 2008. While there was no material appreciation of Renminbi against the U.S. dollar in 2009, the Renminbi appreciated by approximately 3.0%

against the U.S. dollar in 2010 and by approximately 5.1% in 2011. In April 2012, the People's Bank of China (the "PBOC") widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi was allowed to appreciate or depreciate by 1.0% from the PBOC central parity rate, effective April 16, 2012. In March 2014, the PBOC further widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi was allowed to appreciate or depreciate by 2% against the U.S. dollar from the daily central parity rate, effective March 17, 2014. On August 11, 2015, the PBOC executed a 2% devaluation in the Renminbi. Within the following two days, the Renminbi depreciated 3.5% against the U.S. dollars. However, it remains unclear what further fluctuations may occur or what impact this will have on the value of the Renminbi. It is possible that the PRC government could adopt a more flexible foreign exchange policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency. Any resulting fluctuations in exchange rates as a result of such policy changes may have an adverse effect on our financial condition and results of operations.

***Our operations may be adversely affected by rising inflation rates in the PRC.***

Inflation rates in the PRC have been on a sharp uptrend in recent years. The PRC government has undertaken numerous contractionary policies, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down excessive economic growth and control price hikes. Increase in inflation is due to many factors beyond our control, such as rising production and labor costs, high debts, changes in the PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. PRC inflation rates have been in a general downtrend after peaking in the middle of 2011, and increased to 3.6% as of March 2012. In 2013, PRC inflation rates fluctuated with two peaks of 3.2% in February and October 2013. In 2014, the inflation rates fluctuated with two peaks in May and July 2014. In 2015, the inflation rates fluctuated with the peaking of 2.0% in August 2015. The national consumer price index was 2.6% in 2013, equal to that of 2012. The national consumer price index were 2.1% and 1.4% in 2014 and 2015, respectively. We cannot assure you that inflation rates will not increase in the future. If inflation rates rise beyond our expectations, the costs of our business operations may become significantly higher than anticipated, and we may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increasing operating costs. As a result, further inflationary pressures in the PRC may have a material adverse effect on our business, financial condition and results of operations, as well as our liquidity and profitability.

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

Prior to January 1, 2008, except for a number of preferential tax treatment schemes available to various enterprises, industries and locations, business enterprises in China were subject to an enterprise income tax rate of 33% under the relevant PRC Enterprise Income Tax Law. On March 16, 2007, China passed a new enterprise income tax law, or the EIT Law, which took effect on January 1, 2008. The EIT Law imposes a uniform income tax rate of 25% for domestic enterprises and foreign invested enterprises. Business enterprises enjoying preferential tax treatment that was extended for a fixed term prior to January 1, 2008 will still be entitled to such treatment until such fixed term expires. Certain of our subsidiaries are entitled to preferential tax treatment, allowing us to enjoy a lower effective tax rate that would not otherwise be available to us. Since January 1, 2010, our revenue from the provision of international transportation services has been exempted from business tax, in accordance with a notice jointly issued by the PRC finance and tax authorities. To the extent that there are any increases in the applicable effective tax rate, withdrawals of, or changes in, our preferential tax treatment or tax exemptions, our tax liability may increase correspondingly.

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

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protection afforded to foreign investors in China. However, the interpretation and enforcement of some of these laws and regulations involve uncertainties that may limit the legal protection available to investors. Such uncertainties pervade as the legal system in the PRC continues to evolve. Even where adequate laws exist in the PRC, the enforcement of the existing laws or contracts may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement, including enforcing a foreign judgment. In addition, the PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited as reference but have limited authority as precedents. As such, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention. We have full or majority board control over the management and operation of all of our subsidiaries established in the PRC. The control over these PRC entities and the exercise of shareholder rights are subject to their respective articles of association and PRC laws applicable to foreign-invested enterprises in the PRC, which may be different from the laws of other developed jurisdictions.

The PRC has not developed a fully integrated legal system and certain recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. The relative lack of experience of the PRC's judiciary in many cases also creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, in case of new laws and regulations, the interpretation, implementation and enforcement of these laws and regulations would involve uncertainties due to the lack of established practice or published court decisions available for reference. We cannot predict the future legal development in the PRC, including promulgation of new laws, changes to existing

laws or interpretation or enforcement thereof, or inconsistencies between the local rules and regulations and the national law. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have a retroactive effect. As a result, we may not be aware of any violations until sometime after the violation has occurred. This may also limit the remedies available to investors and to us in the event of any claims or disputes with third parties.

***The auditors' reports included in this annual report are prepared by relying on audit work which is not inspected by the Public Company Accounting Oversight Board and, as such, investors may be deprived of the benefits of such inspection.***

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantial operations within China, our auditor relied on its China affiliate to perform audits on our consolidated financial statements, and the PCAOB is currently unable to conduct inspections of the work done by our auditor as it relates to our operations without the approval of the Chinese authorities, our auditor's work related to our operations in China is not currently inspected by the PCAOB. This lack of PCAOB inspection of audit work performed in China prevents the PCAOB from regularly evaluating the audit work performed by any auditor in China including our auditor. As a result, investors may be deprived of the full benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections for all their work. Investors may lose confidence in our reported financial information and procedures and the quality of our consolidated financial statements.

***Proceedings instituted by the SEC against certain PRC-based accounting firms, including the China affiliate of our independent registered public accounting firm, could result in financial statements being determined not to be in compliance with the requirements of the Exchange Act.***

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

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

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

### **Risks Relating to the Aviation Industry**

***Our business is subject to extensive government regulation.***

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

- route allocation;
- pricing of domestic airfares;
- administration of air traffic control systems and certain airports;
- jet fuel pricing;
- air carrier certifications and air operator certification; and
- aircraft registration and aircraft airworthiness certification.

Our ability to provide services on international routes is subject to a variety of bilateral civil air transport agreements between China and other countries, international aviation conventions and local aviation laws. As a result of government regulations, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

***The slow recovery of the global economy could affect air travel.***

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of domestic and global economies. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of global and local economies, low unemployment, strong consumer confidence and availability of consumer and business credit. In 2008 and 2009, the economies of the United States, Europe and certain countries in Asia experienced a severe and prolonged recession and China experienced a slowdown in overall economic growth, which led to a reduction in economic activity. As a result, we continued to experience significantly weaker demand for air travel, especially for international routes in 2009. In response to these market conditions, we reduced our international flights and reallocated our capacity by focusing more on the domestic market.

International air travel generally recovered in the recent years. In 2015, the global economy continued to experience weak recovery and economic growth further slowed down. China's economy was operating within a reasonable range, with the disposable income of residents growing faster than the national economic growth. Benefiting from factors such as transformation and upgrade of economic structure and rising consumption power of Chinese residents, air passenger transportation market continued to grow and demand for outbound tourism and consumption became

robust. However, under the influence of factors including decline in the import and export industry and intensifying market competition, growth of air freight transportation market slackened. In 2015, the aviation industry benefited from the international low crude oil prices, but at the same time, it was adversely affected by exchange rate fluctuations. Factors such as general market volatility, political instability, regional and geopolitical disputes may continue to materially and adversely affect economic activity and financial markets globally, which could in turn weaken the demand for international air travel and adversely affect our business, financial condition and results operations.



In addition, while the PRC government has instituted and is expected to continue implementing certain initiatives in response to periods of slowdown in the PRC economy, a rapid increase in liquidity in the market as a result of fiscal stimulus measures led to the PRC government implementing a number of measures to control such rapid increase, including adjusting interest rates. These foregoing factors and any further decline in economic activity may reduce domestic or international demand for air travel and our growth in the domestic and international aviation markets may slow down significantly, which could have a material adverse effect on our revenues, results of operations and liquidity. For example, our cargo business is highly dependent upon servicing the logistics needs of the semi-conductor industry. A slowdown in this particular industry could adversely affect our cargo business segment.

***We operate in a highly competitive industry.***

We face intense competition in each of the domestic, regional and international markets that we serve. In our domestic market, we compete against all airlines that have the same routes, including smaller domestic airlines that have lower operating costs. In the regional and international markets, we compete against international airlines that have significantly longer operating history, better brand recognition, or more resources, such as large sales network or sophisticated reservation systems. See the section headed "Item 4. Information on the Company — Business Overview — Competition" for more details. The public's perception of safety of Chinese airlines could also materially and adversely affect our ability to compete against our international competitors. To stay competitive, we have, from time to time in the past, lowered our fares for certain of our routes, and we may continue to do so in the future. Increased competition and pricing pressures may have a material adverse effect on our financial condition and results of operations.

***We expect to face substantial competition from the rapid development of the Chinese rail network.***

The PRC government is aggressively implementing the expansion of its high-speed rail network, which has provided train services at a speed of up to 350km per hour connecting major cities such as Beijing, Shanghai, Guangzhou and Hong Kong. The expansion of rail network, improvements in railway service quality, increased passenger capacity and urban center accessibility could enhance the competitiveness of the railway service and negatively affect our market share on some of our key routes, in particular our routes of between 500km to 800km. Increased competition and pricing pressures from the railway service may have an adverse effect on our business, financial condition and results of operations.

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

The current CAAC policies limit foreign ownership of PRC airlines. Under these rules, non-PRC, Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a PRC airline. As of December 31, 2015, approximately 35.46% of our total outstanding shares were held by non-PRC, Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). As a result, our access to funding in the international equity capital markets may be limited. This restriction may also limit the opportunities available to our Company to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. We cannot assure you that the CAAC will not increase these limits on foreign ownership of PRC airlines in the future.

***Any jet fuel shortages or any increase in jet fuel prices may materially and adversely affect our financial condition and results of operations.***

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

Jet fuel prices were volatile in 2013 and 2014, with heightened political tensions and continued political instability in certain Middle Eastern countries and in Crimea bordering Ukraine. In 2014, the average price of fuel decreased by 4.7% compared to that of 2013. Fuel prices have continued to generally decrease during the first half of 2015. In addition, the National Development and Reform Commission (the "NDRC") has adjusted gasoline and diesel prices in China from time to time, taking into account the changes in international oil prices, thereby affecting aviation fuel prices. As of December 31, 2015, setting aside the adjustment in factors such as fuel surcharge, if the average price of jet fuel had increased or decreased by 5.0%, our jet fuel costs would have increased or decreased by approximately RMB1,016 million. As such, we cannot assure you that jet fuel prices will not fluctuate further in the future. Due to the highly competitive nature of the airline industry, we may be unable to fully or effectively pass on to our customers any future increase in jet fuel costs.

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

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

We have significant expenditures with respect to environmental compliance, which may affect our operations and financial condition. For example, we implemented a low-carbon emissions scheme, which over 90% of our planes are complying with and aligns with our environmentally-friendly growth strategy to minimize the environmental impact of our operations. We expedited the application of new civil aviation technologies, continuously focused on the development of renewable resources and concentrated on the invention and application of new technologies and applications to achieve "greener" flying. We have worked with China National Petroleum Corporation (the "CNPC") to conduct experimental research on bio-fuels, which are being developed as a possible alternative to kerosene jet fuel and could lead to reduced carbon dioxide emissions of 30%. In addition, all of our B737NG and some of our A320 series aircraft newly introduced are equipped with a winglet or sharklet, an additional lifting surface to reduce fuel consumption and noises. We also took measures to reduce the impact of our operations on the environment by optimizing our route network and flight schedules as well as installing energy-saving environmentally friendly engines. However, these measures have resulted in significant costs and expenditures. We expect to continue to incur significant costs and expenditures on an ongoing basis to comply with environmental regulations, which could restrict our ability to modify or expand facilities or continue operations.

*Our results of operations tend to be volatile and fluctuate due to seasonality.*

The aviation industry is characterized by annual high and low travel seasons. Our operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for our flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. As a result, our results tend to be volatile and subject to rapid and unexpected change.

## **Risks Relating to the Company**

***We may suffer losses in the event of an accident or incident involving our aircraft or the aircraft of any other airline.***

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

***Our indebtedness and other financial obligations may have a material adverse effect on our liquidity and operations.***

We have a substantial amount of debt, lease and other financial obligations, and will continue to do so in the future. During the period between the end of 2008 and April 2009, the amount of our total liabilities exceeded our total assets. In 2014, we added a total of 75 aircraft to our fleet, by purchase or finance lease (excluding operating lease), including B777 series for long-haul flights, A330 series for long and medium-haul flights and A320 series and B737NG series for medium and short-haul flights. On February 28, 2014, we entered into an agreement with Airbus SAS regarding the purchase of seventy new A320NEO aircraft, which are expected to be delivered to the Company in stages from 2018 to 2020. On June 13, 2014 we entered into agreements with Boeing Company to purchase eighty new B737 series aircraft to be delivered in stages from 2016 to 2020. On July 9, 2015, we entered into a purchase agreement with Boeing Company to purchase fifty new Boeing B737 series aircraft which are expected to be delivered to the Company in stages from 2017 to 2019. On August 14, 2015, we entered into a purchase agreement with Airbus SAS to purchase fifteen new Airbus A330 series aircraft which are expected to be delivered to the Company in stages from 2017 to 2018. See the section headed "Item 4. Information on the Company — Property, Plant and Equipment — Fleet." As of December 31, 2015, our total liabilities were RMB158,061 million. As of the same date, our current liabilities exceeded our current assets by RMB51,309 million. Our total interest-bearing liabilities (including long-term and short-term borrowings, finance leases payable and bonds payable) as of December 31, 2014 and 2015 were RMB97,884 million and RMB119,111 million, respectively, of which short-term liabilities accounted for 34.0% and 37.2%, respectively. Our substantial indebtedness and other financial obligations could materially and adversely affect our business and operations, including being required to dedicate additional cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the funds available for operations, maintenance and service improvements and future business opportunities, increasing our vulnerability to economic recessions, reducing our flexibility in responding to changing business and economic conditions, placing us at a disadvantage compared to competitors with lower debt, limiting our ability to arrange for additional financing for

working capital, capital expenditures and other general corporate purposes, at all or on terms that are acceptable to us.

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

In addition, the airline industry overall is characterized by a high degree of operating leverage. Due to high fixed costs, including payments made in connection with aircraft leases, and landing and infrastructure fees which are set by government authorities and not within our control, the expenses relating to flight operations do not vary proportionately with the number of passengers carried, while revenues generated from a particular flight are directly related to the number of passengers carried and the fare structure of the flight. Accordingly, a decrease in revenues may result in a disproportionately higher decrease in profits.

***We may not be able to secure future financing at terms acceptable to us or at all.***

We require significant amounts of external financing to meet our capital commitments for acquiring and upgrading aircraft and flight equipment and for other general corporate needs. As of December 31, 2015, we had total unutilized credit facilities of RMB55.2 billion from various banks. We expect to roll over these bank facilities in the near future. In addition, we generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained guarantees from Chinese banks in respect of payments under our foreign loan and capital lease obligations. However, we cannot assure you that we will be able to roll over our bank facilities or continue to obtain bank guarantees in the future. Unavailability of credit facilities or guarantees from Chinese banks or the increased cost of such guarantees may materially and adversely affect our ability to borrow additional funds or enter into international aircraft lease financing or other additional financing on acceptable terms. In addition, if we are not able to arrange financing for our aircraft on order, we may seek to defer aircraft deliveries or use cash from operations or other sources to acquire the aircraft.

Our ability to obtain financing may also be impaired by our financial position, leverage and credit rating. In addition, factors beyond our control, such as recent global market and economic conditions, volatile oil prices, and the tightening of credit markets may result in limited availability of financing and increased volatility in credit and equity markets, which may materially adversely affect our ability to secure financing at reasonable costs or at all. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to expand our operations, purchase new aircraft, pursue business opportunities we believe to be desirable, withstand any future downturn in our

business, or respond to increased competition or changing economic conditions may be impaired. We have and in the future will likely continue to have substantial debts. As a result, the interest costs associated with these debts might impair our future profitability.

*We are subject to the risk of fuel price fluctuations.*

Aircraft fuel costs constitute the most significant part of our operating costs and, in 2015, accounted for approximately 23.4% of our total operating costs. The fluctuations of international crude oil prices and adjustments on domestic jet fuel prices by the NDRC have a significant impact on our profitability. While international crude oil prices generally decreased in the second half of 2014, the results of operation and financial condition of our Company are still subject to any significant fluctuations that may occur, which are generally due to factors beyond our control. As such, we generally alleviate the pressure from the rise in operating costs arising from the increase in aviation fuel by imposing fuel surcharges which, however, are subject to government regulations. In order to control fuel costs, we have also entered into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel during previous years.

In the beginning of 2009, the PRC government required prior governmental approval for entering into fuel hedging contracts. In October 2011, we have obtained approval from the PRC government, allowing us to enter into overseas fuel hedging contracts. For the year ended December 31, 2011, we hedged 17% of our annual fuel consumption. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant decline in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. In addition, where we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs. As of December 31, 2015, we had no open crude oil option contracts, and all the contracts signed in past years had been settled before December 31, 2015.

*We are subject to the risk of exchange rate fluctuations.*

We operate our business in many countries and territories. We generate revenue in different currencies, and our foreign currency liabilities are typically much higher than our foreign currency assets. Our purchases and leases of aircraft are mainly priced and settled in foreign currencies such as U.S. dollars. Fluctuations in exchange rates will affect our costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. As of December 31, 2015, our total interest-bearing liabilities denominated in foreign currencies converted to Renminbi amounted to RMB89,342 million, of which the U.S. dollar liabilities accounted for 97.7% of the total amount. Therefore, in circumstances with large fluctuations in exchange rates, the exchange loss arising on the translation of foreign currency denominated liabilities will be greater, which in turn affects our profitability and growth. We usually use hedging contracts for foreign currencies to reduce the risk in exchange rate fluctuations for foreign currency revenue from ticket sales and expenses which are to be paid in foreign currencies. Foreign currency hedging mainly involves sales of the Japanese Yen or the purchase of U.S. dollars at fixed exchange rates. We use cross currency swap to reduce the risk of changes in currency exchange rates and market interest rates (Note 3). The cross currency swap entered into by us for swapping US dollars floating interest rates (LIBOR) into Euro floating interest rates (EURIBOR), is accounted for as a cash flow hedge. As of December 31, 2015, the notional amount of the outstanding cross currency swap agreement was approximately US\$38 million. The agreement will expire in 2025. Please refer to Note 39 to the consolidated financial statements. As of December 31, 2015, foreign currency hedging contracts held by us which are still open amounted to a notional amount of approximately US\$12 million, which will expire in 2017, compared with US\$39 million as of December 31, 2014.

We recorded net foreign exchange losses of RMB4,987 million for 2015, whereas net foreign exchange losses were RMB203 million for 2014. As a result of the large value of existing net foreign currency liabilities denominated in U.S. dollars, our results would be adversely affected if the Renminbi depreciates against the U.S. dollar or the rate of appreciation of the Renminbi against the U.S. dollar decreases in the future. In early 2016, the Group expanded its financing channels by means of issuing super short-term commercial paper and acquiring RMB borrowings to bring in RMB finance. As at the end of January and February 2016, the proportion of USD-denominated debts made up of the Group's interest-bearing debts decreased to 57% and 53%, respectively. Our foreign exchange fluctuation risks are also subject to other factors beyond our control. See "Item 3D. Risk Factors - Risks Relating to the PRC - Foreign exchange regulations in the PRC may result in fluctuations of the Renminbi and affect our ability to pay any dividends or to satisfy our foreign exchange liabilities."

*We are subject to the risk of interest rate fluctuations.*

Our total interest-bearing liabilities (including long-term and short-term loans and finance leases payable) as of December 31, 2014 and 2015 were RMB97,884 million and RMB119,111 million, respectively, of which short-term liabilities accounted for 34.0% and 37.2%, respectively, and long-term liabilities accounted for 66.0% and 62.8%, respectively, for those years. A portion of the long-term interest-bearing liabilities carried variable interest rates. Both our variable and fixed rate obligations were affected by fluctuations in current market interest rates.



Our interest-bearing liabilities were mainly denominated in U.S. dollars and Renminbi. As of December 31, 2014 and 2015, our liabilities denominated in U.S. dollars accounted for 59.3% and 55.3%, respectively, of our total liabilities, while liabilities denominated in Renminbi accounted for 40.5% and 44.5%, respectively, of our total liabilities. Fluctuations in the U.S. dollar and Renminbi interest rates have significantly affected our financing costs. A substantial majority of our borrowings denominated in Renminbi are linked to benchmark five-year lending rates published by the PBOC. The PBOC raised the benchmark five-year lending rate five times from 5.94% to 7.05% in July 2011, but reduced the rate subsequently twice, on the last occasion to 6.4% in July 2012. The benchmark five-year lending rate remained steady and did not change during 2013 and into the first quarter of 2014. A substantial majority of our borrowings denominated in U.S. dollars are linked to floating LIBOR rates which increased overall in 2012, decreased overall in 2013 and 2014, and increased overall in 2015. We cannot assure you that the relevant lending rates may not increase in the future for reasons beyond our control, which may adversely affect our business, prospects, cash flows, financial condition and results of operations. In addition, we expect to issue bonds and notes or enter into additional loan agreements and aircraft leases in the future to fund our operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates.

***Our insurance coverage and costs have increased substantially, and could have an adverse effect on our operations.***

As a result of the events of September 11, 2001, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. At the same time, they have significantly increased the premiums for such coverage, as well as for aviation insurance in general. In response to the reduced insurance coverage from aviation insurers, the PRC government has provided insurance coverage to PRC airlines for third party war liability claims. Such insurance provided by the government is subject to annual review and approval by the government. We renew our insurance policies on a yearly basis. However, if the insurers further reduce the amount of insurance coverage available or increase the premiums for such coverage upon renewal and/or if the PRC government declines to renew our insurance policies, our financial condition and results of operations may be materially and adversely affected.

*We may experience difficulty integrating our acquisitions, which could result in a material adverse effect on our operations and financial condition.*

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

On December 27, 2012, our wholly-owned subsidiary, Shanghai Airlines Tours, International (Group) Co., Ltd. ("Shanghai Airlines Tours") entered into an agreement with Eastern Air Tourism Investment Group Co., Ltd. ("Eastern Tourism") and Shanghai Dongmei Aviation Travel Co., Ltd ("Shanghai Dongmei") to acquire 45% and 55% issued share capital of Xi'an Dongmei Aviation Travel Co., Ltd held by them respectively for consideration of approximately RMB3.3 million comprising approximately RMB1.5 million payable to Eastern Tourism and approximately RMB1.8 million payable to Shanghai Dongmei. On December 27, 2012, our wholly-owned subsidiary, Shanghai Airlines Tours also entered into another agreement with Eastern Tourism and Shanghai Dongmei to acquire 45% and 55% issued share capital of Kunming Dongmei Aviation Travel Co., Ltd ("Kunming Dongmei") held by them respectively for consideration of approximately RMB10.5 million comprising RMB4.7 million payable to Eastern Tourism and approximately RMB5.8 million payable to Shanghai Dongmei. On January 10, 2013, Shanghai Airlines Tours entered into an agreement with Eastern Tourism to acquire the entire issued share capital of Eastern Air International Travel Service Co., Ltd ("Eastern Travel") held by Eastern Tourism for consideration of approximately RMB11.9 million. On August 15, 2014, Shanghai Airlines Tours entered into an equity transfer agreement with Eastern Air Tourism pursuant to which, Shanghai Airlines Tours acquired 72.84% equity interest in Shanghai Dongmei from Eastern Tourism at a consideration of RMB32,147,700. This acquisition had been completed and Shanghai Dongmei became our indirect holding subsidiary. On December 22, 2014, our Company, CEA Holding and CES Finance Holding Co., Ltd ("CES Finance") (as shareholders of Eastern Air Group Finance Company Limited ("Eastern Air Finance")) agreed to inject a total of RMB1,500 million into Eastern Air Finance in proportion according to their respective shareholding in Eastern Air Finance. In February 2015, we contributed a pro-rata amount of RMB375 million in cash.

We are devoting significant resources to the integration of our operations in order to achieve the anticipated synergies and benefits of the absorption and acquisitions mentioned above. See "Item 4. Information on the Company" for details. However, such acquisitions involve uncertainties and a number of risks, including:

- difficulty with integrating the assets, operations and technologies of the acquired airlines or airline-related businesses, including their employees, corporate cultures, managerial systems, processes, procedures and management information systems and services;
- complying with the laws, regulations and policies that are applicable to the acquired businesses;
- failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airlines or airline-related businesses;
- managing relationships with employees, customers and business partners during the course of integration of new businesses;
- attracting, training and motivating members of our management and workforce;
  - accessing our debt, equity or other capital resources to fund acquisitions, which may divert financial resources otherwise available for other purposes;
- diverting significant management attention and resources from our other businesses;

strengthening our operational, financial and management controls, particularly those of our newly acquired assets and subsidiaries, to maintain the reliability of our reporting processes;

difficulty with exercising control and supervision over the newly acquired operations, including failure to implement and communicate our safety management procedures resulting in additional safety hazards and risks;

increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airlines or airline-related businesses; and

the risk that any such acquisitions may not close due to failure to obtain the required government approvals.

We cannot assure you that we will not have difficulties in assimilating the operations, technologies, services and products of newly acquired companies or businesses. Moreover, the continued integration of Shanghai Airlines, China United Airlines and other acquisitions into our Company depends significantly on integrating the employees of Shanghai Airlines, China United Airlines and other acquired companies with our employees and on maintaining productive employee relations. In the event that we are unable to efficiently and effectively integrate newly acquired companies or airline-related businesses into our Company, we may be unable to achieve the objectives or anticipated synergies of such acquisitions and such acquisitions may adversely impact the operations and financial results of our existing businesses.

***We may be unable to retain key management personnel or pilots.***

We are dependent on the experience and industry knowledge of our key management personnel and pilots, and there can be no assurance that we will be able to retain them. Any inability to retain our key management employees or pilots, or attract and retain additional qualified management employees or pilots, could have a negative impact on our operations and profitability.

***Our controlling shareholder, CEA Holding, holds a majority interest in our Company, and its interests may not be aligned with other shareholders.***

Most of the major airlines in China are currently majority-owned either by the central government or provincial or municipal governments in China. CEA Holding currently holds directly or indirectly 62.08% of our Company's equity stake on behalf of the PRC government. As a result, CEA Holding could potentially elect the majority of our Board of Directors and otherwise be able to control us. CEA Holding also has sufficient voting control to effect transactions without the concurrence of our minority shareholders. The interests of the PRC government as the ultimate controlling

shareholder of our Company and most of the other major PRC airlines could conflict with the interests of our minority shareholders. Although the CAAC currently has a policy of equal treatment of all PRC airlines, we cannot assure you that the CAAC will not favor other PRC airlines over our Company.

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

- mergers or other business combinations;
- acquisition or disposition of assets;
- issuance of any additional shares or other equity securities;
- the timing and amount of dividend payments; and
- the management of our Company.

***We engage in related party transactions, which may result in conflict of interests.***

We have engaged in, from time to time, and may continue to engage in, in the future, a variety of transactions with CEA Holding and its various members, from whom we receive a number of important services, including support for in-flight catering and assistance with importation of aircraft, flight equipment and spare parts. Because we are controlled by CEA Holding and CEA Holding may have interests that conflict with our interests, we cannot assure you that CEA Holding will not take actions that will serve its interests over the Company's interests.

***We may not be able to accurately report our financial results or prevent fraud if we fail to maintain effective internal controls over financial reporting, resulting in adverse investor perception, which in turn could have a material adverse effect on our reputation and the performance of our shares and ADSs.***

We are required under relevant United States securities laws and regulations to disclose in the reports that we file or submit under the Exchange Act to the SEC, including our annual report on Form 20-F, a management report assessing the effectiveness of our internal controls over financial reporting at the end of the fiscal year. Our registered public accounting firm is also required to provide an attestation report on the effectiveness of our internal controls over financial reporting. Our management concluded that our internal controls over financial reporting were effective as of December 31, 2015. However, we may discover other deficiencies or material weaknesses in the course of our future evaluation of our internal controls over financial reporting and we may be unable to address and rectify such deficiencies in a timely manner. Any failure to maintain effective internal controls over financial reporting could lead to diminished investor confidence in the reliability of our consolidated financial statements, thereby adversely affecting our business, operations, and reputation, including negatively affecting our performance in the securities markets and decreasing potential opportunities to obtain financing in the capital markets.

As part of our business strategy, we have adopted various measures to develop the international side of our business and to enhance our competitiveness in the international long-distance flight routes. Due to the differences in certain legal and market environments, we have encountered certain challenges during the course of developing our overseas business. We have already adopted and will continue to implement measures in order to enhance the internal controls of our overseas offices and to continue the development of our overseas business.

***Any failure or disruption of our computer, communications, flight equipment or other technology systems could have an adverse impact on our business operations, profitability, reputation and customer services.***

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

***If our efforts to protect the security of personal information about our customers are unsuccessful, we could be subject to costly government enforcement actions and private litigation and our reputation may suffer.***

The nature of our business involves the receipt and storage of personal information about our customers. We have a program in place to detect and respond to data security incidents. To date, all incidents we have encountered have been insignificant. If we commit a significant data security breach or fail to detect and appropriately respond to a significant data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to stop using our services. The loss of consumer confidence from a significant data security breach could hurt our reputation and adversely affect our business, result of operations and financial condition.

***Interruptions or disruptions of service at one or more airports in our primary market could have an adverse impact on us.***

Our business is heavily dependent on our operations at our primary market airports in Shanghai, namely, Hongqiao International Airport and Pudong International Airport and our regional hub airports in Xi'an and Kunming. Each of these operations includes flights that connect our primary market to other major cities. Any significant interruptions or disruptions of service at one or more of our primary market airports could adversely impact our operations.

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

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of China and other countries where we do business. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volumes and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have encountered incidents of the H5N1 strain of avian flu, many of which have resulted in fatalities. In addition, outbreaks of, and sporadic human infection with, influenza A (H1N1) in 2009, a highly contagious acute respiratory disease, were reported in Mexico and an increasing number of countries around the world, some cases resulting in fatalities. In addition, in April 2013, there has been an ongoing outbreak of the H7N9 strain of avian flu, which has largely been centered in eastern China, and has resulted in fatalities in that region, including Shanghai. Furthermore, in 2014, an outbreak of Ebola virus, a highly contagious hemorrhagic fever with a relatively high fatality rate, in certain African countries resulted in confirmed cases in the United States and Europe. We are unable to predict the potential impact, if any, that the outbreak of influenza A (H1N1) or any other serious contagious disease or the effects of another outbreak of SARS, any strain of avian flu or Ebola may have on our business.

Natural disasters, such as earthquakes, snowstorms, floods or volcanic eruptions such as that of Eyjafjallajökull in Iceland in April and May of 2010 and the natural disasters in Japan in early 2011 may disrupt or seriously affect air travel activity. Any period of sustained disruption to the airline industry may have a material adverse effect on our business, financial condition and results of operations.

*Terrorist attacks or the fear of such attacks, even if not made directly on the airline industry, could negatively affect the Company and the airline industry as a whole. The travel industry continues to face on-going security concerns and cost burdens.*

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

#### **Item 4. Information on the Company**

##### **A. History and Development of the Company**

Our registered office is located at 66 Airport Street, Pudong International Airport, Shanghai, China, 201202. Our principal executive office and mailing address is Kong Gang San Road, Number 92, Shanghai, 200335, China. The telephone number of our principal executive office is (86-21) 6268-6268 and the fax number for the Board Secretariat's office is (86-21) 6268-6116. We currently do not have an agent for service of process in the United States.

Our Company, China Eastern Airlines Corporation Limited was established on April 14, 1995 under the laws of China as a company limited by shares in connection with the restructuring of our predecessor and our initial public offering. We are commercially known in the industry as China Eastern Airlines. Our predecessor was one of the six original airlines established in 1988 as part of the decentralization of the airline industry in China undertaken in connection with China's overall economic reform efforts. Prior to 1988, the CAAC was responsible for all aspects of civil aviation



in China, including the regulation and operation of China's airlines and airports. In connection with our initial public offering, our predecessor was restructured into two separate legal entities, our Company and EA Group. According to the restructuring arrangement, by operation of law, our Company succeeded to substantially all of the assets and liabilities relating to the airline business of our predecessor. EA Group succeeded to our predecessor's assets and liabilities that do not directly relate to the airline operations and do not compete with our businesses. Assets transferred to EA Group included our predecessor's equity interests in companies engaged in import and export, real estate, advertising, in-flight catering, tourism and certain other businesses. In connection with the restructuring, we entered into various agreements with EA Group and its subsidiaries for the provision of certain services to our Company. CEA Holding assumed the rights and liabilities of EA Group under these agreements after it was formed by merging EA Group, Yunnan Airlines Company and China Northwest Airlines Company in October 2002. See "Item 7. Major Shareholders and Related Party Transactions" for more details. The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of December 31, 2015:

In February 1997, we completed our initial public offering of 1,566,950,000 ordinary H Shares, par value RMB1.00 per share, and listed our ordinary H Shares on The Stock Exchange of Hong Kong Limited, or the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and American Depositary Shares, or ADSs, representing our H Shares, on the New York Stock Exchange. In October 1997, we completed a public offering of 300,000,000 new ordinary domestic shares in the form of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. H Shares are our ordinary shares listed on the Hong Kong Stock Exchange, and A Shares are our ordinary shares listed on the Shanghai Stock Exchange. Our H Shares and A Shares are identical in respect of all rights and preferences, except that the listed A Shares may only be held by Chinese domestic investors and certain qualified foreign institutional investors. For information regarding our share capital structure, see "Item 10.B Memorandum and Articles of Association – Description of Shares." In addition, dividends on the A Shares are payable in Renminbi.

Since our initial public offering, we have expanded our operations through acquisitions and joint ventures.

On June 12, 2012, the Board resolved and approved to issue corporate bonds in the aggregate principal amount of not more than RMB8.8 billion and for a term of not more than ten years for a single or multiple issuances. We received the CSRC approval for this issuance on December 12, 2012. On March 20, 2013, we issued the first tranche of the corporate bonds in the amount of RMB4.8 billion at 5.05% due 2023. The use of proceeds from this issuance was to repay bank loans, improve our financing structure and replenish our short-term working capital.

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

On December 27, 2012, our wholly-owned subsidiary, Shanghai Airlines Tours entered into an agreement with Eastern Tourism and Shanghai Dongmei to acquire 45% and 55% issued share capital of Xi'an Dongmei Aviation Travel Co., Ltd held by them respectively for a consideration of approximately RMB3.3 million comprising approximately RMB1.5 million payable to Eastern Tourism and approximately RMB1.8 million payable to Shanghai Dongmei.

On December 27, 2012, our wholly-owned subsidiary, Shanghai Airlines Tours also entered into another agreement with Eastern Tourism and Shanghai Dongmei to acquire 45% and 55% issued share capital of Kunming Dongmei held by them respectively for a consideration of approximately RMB10.6 million comprising RMB4.7 million payable to Eastern Tourism and approximately RMB5.8 million payable to Shanghai Dongmei.

On January 10, 2013, our wholly-owned subsidiary, Shanghai Airlines Tours entered into an agreement with Eastern Tourism to acquire the entire issued share capital of Eastern Travel held by Eastern Tourism Investment Group Co., Ltd for consideration of approximately RMB11.9 million.

On April 9, 2013, the Company obtained an approval from the CSRC, pursuant to which the CSRC approved the non-public issue by the Company for no more than 698,865,000 new A Shares. On April 16, 2013, the procedures for registration of the new A Shares with the Shanghai Branch of China Securities Depository & Clearing Co. Ltd. was completed. The 698,865,000 new A Shares, at an issue price of RMB3.28 per share, under this issue are subject to a lock-up period of 36 months from the completion date of the issue and are expected to be listed on April 17, 2016.

We completed the issuance of new H Shares on June 21, 2013. A total of 698,865,000 new H Shares were issued, at the price of HK\$2.32 per share, to CES Global.

On October 29, 2013, the Board resolved and approved that the Company inject RMB36 million into CES Media.

On July 17, 2014, Eastern Air Overseas (Hong Kong) Corporation Limited ("EAO,"), our wholly-owned subsidiary, and Jetstar Hong Kong Airways Limited ("Jetstar Hong Kong"), an associated company of the Company, entered into a loan agreement, pursuant to which EAO will provide a loan of US\$60 million to Jetstar Hong Kong at fair market interest rates. The principal of the loan was repaid on April 30, 2015.

On August 15, 2014, Shanghai Airlines Tours, our wholly-owned subsidiary, entered into an equity transfer agreement with Eastern Tourism, pursuant to which, Shanghai Airlines Tours acquired 72.84% equity interest in Shanghai Dongmei from Eastern Tourism with consideration of RMB32,147,700. This acquisition has been completed and Shanghai Dongmei has become our indirect holding company.

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

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

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

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

On July 27, 2015, we entered into a conditional subscription agreement (“Subscription Agreement”) with Delta Air Lines, Inc. (“**Delta Air Lines**”), pursuant to which Delta Air Lines agreed to subscribe for 465,910,000 shares of the newly issued ordinary H shares of the Company in an amount of HK\$3,488,895,000, representing approximately 3.5% of the total share capital of the Company. On September 9, 2015, we completed the issue of 465,910,000 ordinary H shares with a par value of RMB1 each at an issue price of HK\$7.49 per share to Delta Air Lines.

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

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

On September 1, 2015, we and Delta Air Lines entered into a marketing agreement and a letter of confirmation on the Subscription Agreement. Pursuant to the marketing agreement, both parties will have greater cooperation in terms of code-share, revenue management, schedule coordination, sales cooperation, airport facilities sharing, frequent-flyer program, lounge and system investment as well as staff exchange. Pursuant to the letter of confirmation on the Subscription Agreement, as of September 1, 2015, all conditions precedent to the Subscription Agreement had been fulfilled except for those conditions which will be fulfilled on the completion date of share subscription. On September 9, 2015, we completed the issue of 465,910,000 ordinary H shares with a par value of RMB1 each at an issue price of HK\$7.49 per share to Delta Air Lines.

On November 6, 2015, the Civil Aviation Administration of China officially announced and granted the “Safe Flight Diamond Award”, the highest award for flight safety in the PRC civil aviation industry, to the Company.

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

The material development of our indebtedness is set out in Note 34 and Note 48 to the consolidated financial statements.



The table below sets forth details of our operating fleet as of December 31, 2013 and 2014:

	Number of Aircraft Owned And under Finance Leases		Number of Aircraft Owned and under Operating Leases	
	2013	2014	2013	2014
Passenger Aircraft:				
Wide-body:				
B777-300ER	—	—	4	—
B767	6	1	6	—
A340-600	5	—	4	—
A340-300	—	—	—	—
A330-300	8	7	9	7
A330-200	18	3	25	3
A300-600R	8	—	—	—
MD-11F	—	—	—	—
Narrow-body:				
A321	33	—	39	—
A320	101	44	113	41
A319	15	8	24	5
B757-200	5	3	4	1
B737-800	28	66	44	68
B737-700	42	17	49	13
B737-300	16	—	16	—
EMB 145LR	10	—	10	—
CRJ-200	8	—	—	—
Hawker 800	—	—	—	—
Total Passenger Aircraft:	303	149	347	138
Cargo Aircraft:				
B747-400F	2	3	2	2
B757-200F	—	2	—	2
B777F	—	6	—	6
Total Cargo Aircraft:	2	11	2	10
Total number of passenger aircraft and freighters	305	160	349	148

The table below sets forth details of our operating fleet as of December 31, 2015:

	Number of Aircraft Owned and under Finance Lease	Aircraft under Operating Lease
Passenger Aircraft:		
Wide-body:		
B777-300ER	9	—
B767	6	—
A340-600	—	—
A330-300	11	7
A330-200	30	3
Narrow-body:		
A321	48	—
A320	122	38
A319	31	4
B757-200	—	—
B737-800	71	72
B737-700	55	8
B737-300	5	—
EMB 145LR	6	—
Total Passenger Aircraft:	394	132
Cargo Aircraft:		
B747-400F	2	1
B757-200F	—	—
B777F	—	6
Total Cargo Aircraft:	2	7
Total number of passenger aircraft and freighters	396	139



## B. Business Overview

Our Company was one of the three largest air carriers in China in terms of revenue-tonne-kilometers and number of passengers carried in 2015, and is an important domestic airline based in and serving Shanghai, which is considered to be the international financial and shipping center of China. The primary focus of our business is the provision of domestic, regional and international passenger airline services. As of December 31, 2015, we served a route network that covers 1,057 domestic and foreign destinations in 179 countries through SkyTeam, an international airlines alliance. We operate primarily from our core hub in Shanghai and regional hubs in Kunming and Xi'an.

We have received many awards, recognitions and accolades through the years. We were recognized as one of the "Most Innovative PRC Companies" by *Fortune Magazine* in 2011, and our "China Eastern Airlines" brand was awarded China's Famous Trademark by the State Administration for Industry and Commerce in 2011. In addition, in 2012 we received various recognitions and awards, including "Golden Tripod Prize", which was the highest award awarded at the 8th Annual Meeting of China's Securities Market, Golden Bauhinia Award for "The Listed Company with Best Brand Value 2012" by China Securities, "2012 Best Mid-Cap Company and Best Managed Company in China" by Asiamoney Magazine, "Top 50 Most Valuable Chinese Brands" by WPP, a global brand communication and public relations firm, "2012 TOP 25 CSR (Corporate Social Responsibility) Ranking" by Fortune China Magazine, "2012 China State-owned Listed Enterprise Social Responsibility Rankings Top 20" by Southern Weekly, "The Best Board of Directors of State-owned Listed Holding Companies of China Top 20" by various major financial media, including Moneyweek, "Healthy China – Best Employee Health & Benefit Unit" by Health Times, a major newspaper in China focusing on health and lifestyle, and Tsinghua University, "Internal Audit Leading Enterprises in terms of Risk Management and Internal Audit" by China Institute of Internal Audit, "Best 100 Employers" by zhaopin.com, a major online recruiting website in China, and "The World's Most Improved Airline" by SKYTRAX, a United Kingdom-based aviation research organization. In 2013, we received the National 1 May Award Certificate and were honored as one of the 2013 Top Ten Companies with the Best Corporate Social Responsibility by Fortune China Magazine, "Best Mid-cap Company" by Hong Kong Asiamoney Magazine for the second consecutive year, "Top 50 Most Valuable Chinese Brands in 2013" by WPP, a global brand communication and public relations firm, the "Golden Bauhinia Award" of the "Best Listed Company" and "Listed Company with the Best Investor's Relations Management" by Ta Kung Pao and one of the "Best 100 Employers" by zhaopin.com. In 2014, our charity campaign "Love at China Eastern Airlines" was awarded the Gold Award at the First Chinese Young Volunteers Services Contest. The "Love at China Eastern Airlines" campaign has organized activities such as visiting welfare and nursing homes, subsidizing Hope Schools and schools for urban and rural migrant workers' children and teaching school children with hearing and speaking impairment, running blood donation programs, and other activities for environmental protection. The campaign launched 5,179 projects with 274,979 staff and members taking participation, serving a total of 233,353 people in need. Through interaction with the community, we have established a charity brand image of "delivering love and serving the community". In 2015, "Love at China Eastern Airlines" launched 530 projects all year round, with 26,119 staff participating, serving a total of 40,166 people.

In 2014, we were recognized as "Top 50 Most Valuable Chinese Brands" by WPP, a global brand communication firm, as well as being awarded the "China Securities Golden Bauhinia Award" and ranked first as the "Best Listed Company Award" by Ta Kung Pao in Hong Kong for three consecutive years; and ranked among top 10 in terms of "Most Competitive Asia Airline 2014" and "Most Popular Asia Airline 2014" in the 5th World Airline Competitiveness

Rankings.

In 2015, we were bestowed a number of awards such as “Best China Airline” at the 8th TTG (Asia Media) China Travel Awards, “China Securities Golden Bauhinia Award – Listed Company with the Most Valuable Brand” for four consecutive years and "Best Innovative Listed Company" granted by Hong Kong Ta Kung Pao, as well as "2014-2015 Most Respectable Chinese Enterprise" and "2015 Chinese Best Business Model Innovation Award" by the Economic Observer and 21st Century Business Herald, respectively.

Compared to 2014, our traffic volume (as measured in RTKs) increased by 10.53% from 16,122 million in 2014 to 17,820 million in 2015. Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) increased by 14.55% from 127,750 million in 2014 to 146,342 million in 2015. Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) increased by 1.31% from 4,802 million in 2014 to 4,865 million in 2015.

## Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the years ended December 31, 2013, 2014 and 2015:

	Year Ended December 31,		
	2013 (Millions of RMB)	2014 (Millions of RMB)	2015 (Millions of RMB)
Traffic revenues			
Passenger	72,928	75,261	78,585
Cargo and mail	7,603	7,328	6,491
Total traffic revenues	80,531	82,589	85,076

## Passenger Operations

The following table sets forth certain passenger operating statistics of our Company by route for each of the years ended December 31, 2013, 2014 and 2015:

	Year Ended December 31,		
	2013	2014	2015
Passenger Traffic (in RPKs) (millions)	120,461	127,750	146,341
Domestic	82,812	88,192	98,304
Regional (Hong Kong, Macau and Taiwan)	4,049	4,367	4,189
International	33,600	35,191	43,848
Passenger Capacity (in ASKs) (millions)	152,075	160,585	181,792
Domestic	104,459	110,381	121,019
Regional (Hong Kong, Macau and Taiwan)	5,435	5,759	5,509
International	42,181	44,445	55,264
Passenger Yield (RMB)	0.61	0.61	0.56
Domestic	0.61	0.61	0.55
Regional (Hong Kong, Macau and Taiwan)	0.85	0.8	0.75
International	0.56	0.59	0.56
Passenger Load Factor (%)	79.21	79.55	80.50
Domestic	79.28	79.90	81.23

Regional (Hong Kong, Macau and Taiwan)	74.51	75.83	76.04
International	79.66	79.18	79.34

Our domestic routes generated approximately 65.6% of our passenger revenues in 2015. Our most heavily traveled domestic routes generally link Shanghai to the large commercial and business centers of China, such as Beijing, Guangzhou and Shenzhen.

We also operated approximately 22 flight routes between mainland China and Hong Kong as of December 31, 2015. In addition, we operated approximately 25 routes between mainland China and Taiwan and three routes between China and Macau as of December 31, 2015. Our regional routes accounted for approximately 4.0% of our passenger revenues in 2015.

In 2013, we adjusted our flight capacity allocation in a timely manner and refined pricing and cabin space management according to changes in the market demand, so as to sustain a steady growth in the passenger transportation business. In respect of our domestic business, with the enhanced Shanghai core hub, as well as Kunming and Xi'an regional hubs, we continued to optimize our route network and flight schedules. In respect of our regional (Hong Kong, Macau and Taiwan) business, we maintained our competitiveness by 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 the Chinese and Japanese markets. At the same time, we seized the opportunity of the rapid growth in the number of outbound passengers and increased the flight capacity routes to North America, Europe, Korea and Southeast Asia.

In 2014, with Shanghai as a core hub and Kunming and Xi'an as regional hubs, we continued to expand our route network to provide additional connecting opportunities and strengthen our market position in these three major hubs. New routes from Pudong to Toronto and Auckland were introduced at Shanghai Pudong hub while more frequent flights were added for international routes to New York, Los Angeles, London and Paris to maximize the coverage of the Shanghai hub network. The Kunming hub launched a new route from Kunming to Paris, which is the first inter-continental route in Yunnan Province, and continued to optimize route network and flight schedules for Kunming to East Asia, Southeast Asia and West Asia. We proactively utilized aircraft to expand our route network and flight destinations of Xi'an hub were increased to 70. According to our strategic plan to seize the opportunity for sales in the market, the early termination of leases regarding A300, 767 and 757 aircraft, the relatively early termination of wide-body aircraft and, in addition, the early retirement of EMB and one 733 aircraft, in terms of static seat growth, increased by 5.9% in 2014 compared to 2013. Moreover, aircraft being introduced in the first half of the year was less than those introduced in the second half of the year, leading to capacity not fully utilized in the peak season of July to August, thus leading to slowing down of the overall growth in capacity. Apart from the number of static seats, there were more busy airports and bottleneck issues slowed down the growth of domestic routes of traditional airlines. In particular, the capacity of the Shanghai region did not grow quickly and was affected by military exercises during the peak season. The routes between China and Southeast Asia was affected by the Malaysia Airlines Flight 370 incident, the political instability in the region and anti-China atmosphere, leading to a slow-down of capacity growth. We also experienced competitive pressures from low-cost airlines which also adversely affected revenues and capacity.



In 2015, we conducted significant optimization of our fleet structure, and increased our fleet to 551 aircraft as at the end of 2015, and the variety of our aircraft models was streamlined to 13 models by the end of 2015. In respect of passenger transportation, we actively seized the opportunities brought about by international low oil prices and robust demand for outbound tourism, and achieved impressive growth in passenger transportation by responding proactively to adverse factors such as geopolitical instability around the globe, terrorist attacks outside China, MERS cases in South Korea and impact on short-haul routes due to formation of a high-speed railway network in 2015. Efforts have been made to foster the construction of hubs and negotiate time slots in hub and core markets in order to promote superb connectivity. In respect of freight transportation and logistics, we tightened our cost control, optimized production structure, broadened marketing channels and strived to stabilize transportation prices in 2015. In 2015, we further strengthened our cooperation with both member and non-member airlines of SkyTeam Alliance to widen the scope of cooperation and improve the quality of cooperation. In September 2015, we entered into a strategic partnership with Delta Air Lines to further explicitly deepen the cooperation in terms of code-share, cabin sharing and joint sales. By forming an industry-leading route network, both parties implemented codeshare on 123 routes, including 9 international major routes and 114 domestic routes in the PRC and the USA. Through offering joint sales to corporate customers, the influential power of the North American corporate customers was increased. As for the European market, the Group and Air France have realized interline transit services for flights departing and arriving at Shanghai, Dalian, Paris and Nice. In the Australian market, the joint operation with Qantas was officially commenced to launch codeshare on major routes such as Shanghai-Sydney and Shanghai-Melbourne routes, in order to launch in-depth cooperative projects including customer base sharing.

In 2015, we put in available seat – kilometers (ASK) of 181,792.90 million passenger-kilometers, representing an increase of 13.2% from 2014. Number of passengers carried in 2014 was 93.8 million, representing an increase of 11.9% from 2014. Passenger load factor in 2015 was 80.5%, representing an increase of 1.2% from 2014. Passenger revenue in 2015 amounted to RMB78,585 million, representing an increase of 4.4% from 2014.

We operate most of our flights through our three hubs located in eastern, northwestern and southwestern China, namely Shanghai, Xi'an and Kunming, respectively. With Shanghai as our main hub and Xi'an and Kunming as our regional hubs, we believe that we will benefit from the level of development and growth opportunities in eastern, northern and western China as a whole by providing direct services between various cities in those regions and between those regions and other major cities in China. We have steadily fostered the construction of a flight system for these core hubs by introducing new flight destinations and increasing the frequency of certain flights, thereby enhancing our transfer and connection capability in these hub markets.

In 2013, 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, as well as introducing new international flight destinations such as San Francisco and Manila, we have further enhanced our influence in the Shanghai hub market. Meanwhile, our transit assurance ability in Shanghai Pudong Airport increased sustainably. 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 transit between international flights is attained. Leveraging on opportunities arising from the release of time slots at the new

Kunming airport, we allocated more flight capacities in 2014 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 our flights going to Kunming. In 2013, we adjusted the flight plan of Xi’an hub according to its seasonal features by focusing on the development of plateau routes, introducing a new route from Xi’an to Lijiang and increasing the frequency of flights for routes from Xi’an to Lhasa and Jiuzhaigou.

In 2014 we established in a sequence 6 on schedule navigation points, namely the Delingha, Daocheng, Luzhou, Luliang, Zhanjiang and Hanzhong; three international on schedule navigation points including Bangkok, Osaka, Krabi. We also expanded the above-plateau routes: newly stablished Xi’an - Daocheng Yading, Xi’an - Jiuzhai - Nanjing; frequency increased: Xi’an - Golmud, Xi’an - Jiuzhai, Xi’an - Lhasa, Xi’an - Delingha, Sining - Lhasa.

In 2015, we enhanced Shanghai core hub and Xi’an and Kunming regional hubs, and established and extended our aviation transportation network in major markets with high market influence such as Beijing, Nanjing and Qingdao to cover 1,057 destinations in 179 countries. We strove for additions of air traffic rights and time slot resources in hub markets and core markets, steadily improved the aircraft utilization rate and consolidated and expanded market share in the three largest hubs and core markets. Based on the SkyTeam Alliance platform, we enhanced our strategic cooperation with Delta Air Lines and cooperated with Air France and Qantas to develop a highly efficient and convenient flight network which covered the whole country and connected to the whole wide world.

*Cargo and Mail Operations*

The following table sets forth certain cargo and mail operating statistics of our Company by route for each of the years ended December 31, 2013, 2014 and 2015:

	Year Ended December 31,		
	2013	2014	2015
Cargo and Mail Traffic (in RFTKs) (millions)	4,857	4,803	4,865
Domestic	959	899	948
Regional (Hong Kong, Macau and Taiwan)	123	128	126
International	3,775	3,776	3,791
Cargo and Mail Capacity (in AFTKs) (millions)	8,028	8,086	8,842
Domestic	2,172	2,091	2,337
Regional (Hong Kong, Macau and Taiwan)	275	291	281
International	5,581	5,704	6,224
Cargo and Mail Yield (RMB)	1.57	1.55	1.33
Domestic	1.30	1.27	1.09
Regional (Hong Kong, Macau and Taiwan)	3.71	3.47	3.01
International	1.56	1.55	1.34
Cargo and Mail Load Factor (%)	60.50	59.39	55.02
Domestic	44.17	42.97	40.57
Regional (Hong Kong, Macau and Taiwan)	44.75	43.88	44.82
International	67.63	66.21	60.91

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

In 2014, the global aviation freight transportation business recovered slowly. We achieved relatively significant improvement in results by controlling flight capacity and enhancing marketing efforts. We further streamlined our fleet of freighters and terminated the leases of two older freighters in order to reduce operating costs. By improving the utilization rate of freighters and providing flexible flight capacity options, our market share in Europe and America was stabilized. We have also established a regional freight hub in Zhengzhou by launching cargo flights from Zhengzhou to Amsterdam and Chicago and establishing a Zhengzhou-based regulated truck delivery network which



cover 28 locations in China. We also refined our cabin management by enhancing our management on capacity and fares. Meanwhile, we proactively promoted the transformation of freight transportation and logistics business and expanded value-added businesses such as logistics integration and express delivery. We established a logistics resources bank which covers 510 suppliers with domestic suppliers generally covering the entire country. We also completed the layout of international suppliers network in four major regions, including Shanghai, Europe, America and Southeast Asia. We also proactively participated in cross-border e-commerce business by providing logistics solutions for cross-border e-commerce and completing self-development of the “cross-border e-commerce logistics business system”. We enhanced global trading procurement and imported the best and freshest in-season products from regions such as North America and South America.

In 2015, Eastern Airlines Logistics Co., Ltd. (“Eastern Logistics”), one of our subsidiaries, tightened its cost control, optimized production structure, broadened marketing channels and strived to stabilize transportation prices. In terms of traditional freight transportation operation, China Cargo Airlines Co., Ltd. streamlined its fleet scale and terminated the leases for three older freighters, thereby reducing operating costs. Route network of Shanghai hub was optimized to reduce the number of intermediate points and improve operating efficiency, thus increasing the daily utilization rate of freighters for the whole year by more than 8% as compared to last year. Layout of flight capacity was adjusted based on market demand to stabilize flight capacity for the core markets in Europe and America. Efforts have also been made to broaden sourcing channels and strengthen joint cooperation. As such, the air-freight transit volume increased by nearly 10% as compared to last year. In terms of freight transportation logistics, Eastern Logistics focused on the construction of the core logistics platform for pharmaceutical logistics and aviation equipment as well as the establishment of the transit marketing platform to perfect its third-party logistics solution. Distribution channels of [www.eaemall.com](http://www.eaemall.com) have been expanded to construct our rapid supply chain. Through proactively expanding cooperation with cross-border e-commerce partners, the first chartered aircraft for directly imported goods purchased via cross-border e-commerce in the PRC came into service, increasing the annual revenue from cross-border logistics by approximately 32% as compared to last year.

## Our Operations by Geographical Area

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

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

Revenue from ticket handling services, airport ground services, cargo handling service and other miscellaneous services is classified on the basis of where the services are performed.

The following table sets forth our revenues by geographical area for each of the three years ended December 31, 2015:

	2013 (Millions of RMB)	2014 (Millions of RMB)	2015 (Millions of RMB)
Domestic	59,563	60,531	61,222
Regional (Hong Kong, Macau and Taiwan)	3,911	3,799	3,569
International	24,771	25,855	29,178
Total	88,245	90,185	93,969

## Regulation

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

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

- the liabilities of carriers.

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

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

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

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

Because our Company provides services on international routes, we are also subject to a variety of bilateral civil air transport agreements between China and other countries. In addition, China is a contracting state as well as a permanent member of the International Civil Aviation Organization, an agency of the United Nations established in 1947 to assist in the planning and development of the international air transportation. The International Civil Aviation Organization establishes technical standards for the international airline industry. China is also a party to a number of other international aviation conventions. The business operations of our Company are also subject to these international aviation conventions, as well as certain foreign country aviation regulations and local aviation laws with respect to route allocation, landing rights and related flight operation regulation.

### ***Domestic Route Rights***

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

### ***Regional Route Rights***

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

The CAAC and the Economic Development and Labor Bureau of Hong Kong entered into an agreement in 2007 to further expand the Air Transportation Arrangement. This agreement increases the routes between Hong Kong and mainland China to expand coverage to most major cities in mainland China. The capacity limits for passenger and/or

cargo services on most routes will also be gradually lifted. Beginning in 2007, each side designated three airline companies to operate passenger and/or cargo flights and another airline company to operate all-cargo flights on the majority of the routes between Hong Kong and mainland China.

On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by the governments of mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. Mainland China and Taiwan agreed to increase flight destinations for air links between the two sides in mainland China to 33 airports in various PRC cities in 2010, while flight destinations in Taiwan continue to include eight airports in various cities in Taiwan. At the end of 2012, the two sides agreed to increase the total number of flights to 616 per week and to increase the total number of destination airports in mainland China and Taiwan to 64. The two sides also previously agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. On August 12, 2013, the two sides agreed to increase the total number of flights to 670 per week and add three terminals of chartered cargo flights in mainland China, namely, Tianjin, Zhengzhou and Ningbo airports. At the end of 2014, mainland China and Taiwan agreed to increase the total number of flights to 924 per week and to increase the total number of destination airports in mainland China to 65. In April 2015, the fifth batch of Mainland pilot cities was opened for individual tour to Taiwan, including Haikou, Hohhot, Lanzhou, Yinchuan, Changzhou, Zhoushan, Huizhou, Weihai, Longyan, Guilin and Xuzhou, and the number of Mainland cities with free line tour to Taiwan has reached 47.

### ***International Route Rights***

International route rights, along with the corresponding landing rights, are derived from air services agreements negotiated between the PRC government, acting through the CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled services between certain points within each country. The CAAC awards the relevant route to an airline based on various criteria, including:

- availability of appropriate aircraft and flight personnel;
  
- safety record;

- on-time performance; and

- hub location.

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

### *Airfare Pricing Policy*

The PRC Civil Aviation Law provides that airfares for domestic routes are determined jointly by the CAAC and the agency of the State Council responsible for price control, primarily based upon average airline operating costs and market conditions.

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

The CAAC and the NDRC will regularly review the average operating costs of Chinese airlines, and may adjust the basic airfares for particular domestic routes which, in their view, are not at a reasonable level. The CAAC and NDRC jointly issued a notice on April 13, 2010, effective on June 1, 2010, pursuant to which airlines may set first-class and business-class airfares in accordance with market prices, subject to relevant PRC laws. Such pricing must be filed 30 days before effectiveness with the CAAC and NDRC. Efforts by the Chinese regulators to promote a sale market with fair competition will also help provide a favorable environment for our business growth.

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

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

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

#### ***Acquisition of Aircraft and Spare Parts***

Our Company is permitted to import aircraft, aircraft spare parts and other equipment for our own use from manufacturers through EAIEC, which is 55% owned by CEA Holding and 45% owned by our Company. This gives us a sale market with fair competition flexibility with our inventory management by allowing us to maintain a relatively lower overall inventory level of aircraft parts and equipment than we otherwise would have to maintain. We are still required to obtain approval from the NDRC and may be subject to appraisal of the relevant competent authorities for any import of aircraft. We generally pay a commission to EAIEC in connection with these imports.

#### ***Domestic Fuel Supply and Pricing***

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

In 2005, the NDRC, the CAAC and the China Air Transport Association jointly launched the linkage mechanism for aviation fuel prices and transportation prices by airline companies. The fuel surcharge standards for domestic passenger routes were adjusted according to a series of notices regarding the adjustments of passenger fuel surcharges on domestic routes issued by the NDRC and the CAAC from 2006 to 2008. In the second half of 2008, international crude oil prices decreased significantly, leading the NDRC and the CAAC to release an announcement on January 14, 2009 to suspend fuel surcharges for domestic passenger routes with effect from January 15, 2009. A Notice Concerning the Relevant Issues on Establishment Linkage Mechanism for Passenger Fuel Surcharges on Domestic Routes and the Price of Domestic Aviation Coal Oil Fuel by NDRC and CAAC, with effect from November 14, 2009, provided that fuel surcharges shall be charged by the airlines, at the airline's discretion, but within certain limits as set forth in the notice. On March 31, 2010, the NDRC and CAAC issued the Notice Regarding the Publication of Passenger Fuel Surcharges Rate on Domestic Routes, which reduced the standard fuel surcharge by 3.1% for domestic routes. In addition, on March 31, 2011, the NDRC and CAAC issued another similar notice, which further adjusted the standard fuel surcharge downwards. From August 1, 2011, according to the *Announcement on the Linking Mechanism for Fuel Surcharges and Aviation Coal Oil Fuel*, issued by the NDRC and CAAC, the rate of domestic route fuel surcharges will be adjusted each month if the difference in consolidated purchase costs for domestic aviation coal oil fuel exceeds RMB250 per ton.

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

### ***Safety***

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

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



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

In early 2013, the CAAC amended the original Civil Aviation Incidents Standards and published the new Civil Aviation Incidents Standards which became effective as of March 1, 2013. The CAAC amended the *Management Rules on Safety Information of Civil Aviation* which became effective on April 4, 2016 and required that related Chinese airlines should arrange a certain number of specialists that satisfied with special requirements to take charge of the management of safety information. The CAAC promulgated the new *Administrative Provisions on Emergencies of China's Civil Aviation* which became effective from April 17, 2016 and formulated the the duties and responsibilities of Chinese airlines on the prevention and emergency preparedness, prediction and early warning, emergency disposal, handling and other emergency work of civil aviation. We will ensure our relevant employees implement the new standards, which will enable us to enhance our daily operations. For more information on the safety standards and measures implemented by us, see "– Maintenance and Safety – Safety."

### *Security*

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

### ***Noise and Environmental Regulation***

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

### ***Chinese Airport Policy***

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

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

The civil aviation infrastructure levy was paid to the MOF and refunded again from July 1, 2008 to June 30, 2009, according to one of the ten measures announced by the CAAC in December 2008 in response to the global economic downturn. The refunded levy for China's aviation industry amounted to approximately RMB4,000 million in total. The ten measures also include measures to enhance safety, reduce taxes, invest in infrastructure and optimize the airspace and air routes.

### ***Limitation on Foreign Ownership***

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

## **Competition**

### *Domestic*

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

There are currently more than 50 Chinese airlines in mainland China, and our Company competes with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. Our Company, Air China Limited, or Air China, which is based in Beijing and listed on the Hong Kong Stock Exchange and the London Stock Exchange, and China Southern Airlines Company Limited, or China Southern, which is based in Guangzhou and listed on the Hong Kong Stock Exchange and the New York Stock Exchange, are the three leading air carriers in China, both in terms of revenue tonne-kilometers and size of operations.

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

We also face competition from other domestic carriers in our air cargo business. However, we believe our absorption of Shanghai Airlines in early 2010 will strengthen our market positioning within the domestic market, particularly with respect to routes to and from Shanghai. We have also recently initiated a strategy to accelerate the transition of our role from air cargo transportation enterprise to aviation and logistics services provider. On December 26, 2012, we established China Eastern Airlines Logistic Company by merging China Cargo Airlines and Shanghai Eastern Airlines Logistics Co., Ltd. ("Eastern Logistics"), which we believe will facilitate our development of services with respect to courier, logistics solutions and aviation trade and on-site logistics services platforms.

### ***Domestic Rail***

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

With the establishment of a PRC national high-speed railway network, we will inevitably face increasing competition and pricing pressures from this railway service. Therefore, we have been taking active measures in decreasing the number of short-haul routes that overlap with such high-speed train routes, as well as adjusting certain airfare prices on affected routes, facilitating "air-to-railway" transfers and allocating flight resources to alternative routes or

medium-to-long-haul routes that have higher profitability, higher demand and lessened competition. In addition, in 2013, we 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. We expect to continue exploring cooperation opportunities with domestic railway authorities, while maintaining and strengthening our other competitive advantages, which include providing high quality services, increasing our pre-sale product promotions and developing our transfer services.

### *Regional*

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

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. At the end of 2011, the two sides agreed to increase the total number of flights to 616 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. At the end of 2013, the two sides agreed to increase the total number of flights to 786 per week and to increase the total number of destination airports in mainland China and Taiwan to 54. At the end of 2014, mainland China and Taiwan agreed to increase the total number of flights to 924 per week and to increase the total number of destination airports in mainland China to 65. In April 2015, the fifth batch of Mainland pilot cities was opened for individual tour to Taiwan, including Haikou, Hohhot, Lanzhou, Yinchuan, Changzhou, Zhoushan, Huizhou, Weihai, Longyan, Guilin and Xuzhou, and the number of Mainland cities with free line tour to Taiwan has reached 47.

The two sides also previously agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. We currently operate flights to Taipei from Shanghai, Nanjing, Xi'an, Kunming, Wuhan, Hefei, Nanchang, Ningbo, Taiyuan, Qingdao, Wuxi, Yancheng, Yinchuan and Lijiang. In addition, we signed a strategic framework agreement in April 2010 with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan. According to the Ninth Meeting of Cross-strait Air Transportation, the two sides agreed to increase the total number of flights per week in 2014. According to the Tenth Meeting of Cross-strait Air Transportation in 2015, the two sides agreed to have Changzhou and Shaoshan as two new regular passenger shipping point. We plan to establish the Changzhou-Taipei route with three flights per week. As the market is expanding for individual tourist, we aim to target our sales to these customers.

We believe we will benefit from expanding our market share in Taiwan-mainland China direct flight services as based on the more and more frequent communication between Taiwan and mainland China. However, as one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.

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

*International*

We compete with Air China, China Southern and many other well-established foreign carriers on our international routes. Most of our international competitors are very well-known international carriers and are substantially larger than we are and have substantially greater financial resources than we do. Many of our international competitors also have significantly longer operating histories and greater name recognition than we do. Some international passengers, who may perceive these airlines to be safer and provide better service than Chinese airlines in general, may prefer to travel on these airlines. In addition, many of our international competitors have more extensive sales networks and utilize more developed reservation systems than ours, or engage in promotional activities, such as frequent flyer programs, that may be more popular than ours and effectively enhance their ability to attract international passengers.

We also face significant competition in our international cargo operations. Moreover, China and the United States entered into an air service agreement on July 24, 2004. Pursuant to this agreement, five additional airlines from each country are allowed to serve the China-U.S. market over the next few years. Another air transport agreement was signed between China and the United States on July 9, 2007 in order to increase travel and tourism and promote cultural, business and governmental exchanges between China and the United States, as well as to promote the ultimate objective of full liberalization of the bilateral air transport market. A trade services agreement was also signed between China and ASEAN countries in January 2007 and became effective in July 2007 to remove the restrictions on China's entry into foreign freight markets. Air China operates the largest number of international routes among all Chinese airlines. Beijing, the hub of Air China's operations, is the destination for most international flights to China. We primarily compete with Air China, All Nippon Airways, Japan Airlines, and Spring Airlines on our passenger routes to Japan. On our Korean routes, we compete with China Southern Airlines, Air China and Asiana Airlines and Korean Air. Our principal competitors on our flights to Southeast Asia include Thai Airways International, Singapore Airlines, Malaysia Airlines, Air Asia and Vietnam Airlines. On our passenger flights to the United States, our principal competitors include Delta Air Lines, United Airlines, American Airlines, Air China and Air Canada. On our European routes, our competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways, Lufthansa German Airlines and Alitalia. We compete with Air China, China Southern Airlines and Qantas Airways on our Australian routes. We compete in the international market on the basis of price, service quality, frequency of scheduled flights and convenient sales arrangements.

To improve our competitive position in international markets, we have established additional dedicated overseas sales offices, launched our own frequent flyer program, participated in "Asia Miles", a popular frequent flyer program in Asia, and entered into code-sharing arrangements with a number of foreign airlines. We have also improved our online reservation and payment system. In addition, in June 2011, we joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes, among others, international carriers such as Delta, China Southern, Alitalia, Air France and KLM. As a member of SkyTeam alliance, our Elite members can enjoy approximately 516 lounges world-wide. In 2013, we implemented code-sharing programs covering 242 routes with 11 SkyTeam member airlines. See " – Marketing and Sales – SkyTeam Alliance." In the meantime, we also started code-sharing cooperation with seven non-SkyTeam member airlines, covering more than 150 routes, including Japan Airlines Corporation and Qantas Airways Limited. In 2014, we proactively promoted international cooperation among members and non-members airlines of SkyTeam Alliance at various levels and expanded its route network to increase its brand recognition. We implemented transit service cooperation with China Airlines, Delta Airlines and Air France between different terminals at Shanghai Pudong International Airport. We facilitate joint sales by optimizing transit connection with Delta Airlines and enhanced co-operations with Air France by increasing the number of code-share flights. We also comprehensively improved cooperation on the China-Australia route by establishing joint operation with Qantas. In 2015, we actively responded to the industry competition, strove for additions of air traffic rights and time slot resources in hub markets and core markets, steadily improved the aircraft utilization rate and consolidated and expanded market share in the three largest hubs and core markets. Based on the SkyTeam Alliance platform, we enhanced our strategic cooperation with Delta Air Lines and cooperated with Air France and Qantas to develop a highly efficient and convenient flight network which covered the whole country and connected to the whole wide world.

## **Maintenance and Safety**

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

## ***Maintenance Capability***

Through our cooperation with service providers and ventures with other companies, we currently perform regular repair and maintenance checks on all of our aircraft, which include D1 checks, C checks and other maintenance services for certain aircraft and other flight equipment. We also perform certain maintenance services for other Chinese airlines. Our primary aircraft maintenance base is at Hongqiao International Airport. In 2011, we commenced



use of a newly constructed wide-body aviation hangar at Hongqiao International Airport, which can accommodate the maintenance of two of our wide-body aircraft and one narrow-body aircraft. We have additional maintenance bases at Pudong International Airport and some of our provincial hubs. Our maintenance staff in Shanghai supervises the operation of our regional maintenance facilities. We employed approximately 9,687 workers as maintenance and engineering personnel as of December 31, 2015. Some of our aircraft maintenance personnel have participated in the manufacturer training and support programs sponsored by Airbus and Boeing. In order to enhance our maintenance capabilities and to reduce our maintenance costs, we have, over the past few years, acquired additional maintenance equipment, tools and fixtures and other assets, such as airborne testing and aircraft data recovery and analysis equipment. Our avionics equipment is primarily maintained and repaired at our electronic maintenance equipment center located in Shanghai.

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

On November 6, 2007, we entered into a joint venture with United Technologies Corp., or UTC, to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd., or Pratt & Whitney, for the purpose of performing maintenance and repairs on aircraft engines. Our Company and UTC contributed US\$20,145,000 and US\$19,355,000, respectively, to the registered capital and hold 51% and 49%, respectively, of the equity interests in the joint venture. Moreover, after our absorption of Shanghai Airlines, we took over its 15% equity interest in Boeing Shanghai Aviation Services Co., Ltd. ("Boeing Shanghai"). As of December 31, 2013, Boeing (China) Investment Co., Ltd., Shanghai Airport (Group) Co., Ltd. and Boeing (Asia) Services Investment Limited hold 35.3%, 25.0% and 24.7%, respectively, of the remaining equity interest. Boeing Shanghai was founded in 2006 with a registered capital of US\$85,000,000, and operates a maintenance hangar with the capacity to provide aircraft modification and maintenance services for two wide-body aircraft and one narrow-body aircraft and provides aircraft modification and maintenance services. In addition, we also hold 50% of Shanghai Airlines' previous equity interest in Shanghai Hute Aviation Technology Co., Ltd. ("Shanghai Hute"). The remaining equity interest is held by Sichuan Haite High-Tech Co., Ltd. Shanghai Hute was founded in 2003 with a registered capital of RMB30,000,000, and provides maintenance services for aviation equipment. The enhancement of our maintenance capabilities allows our Company to perform various maintenance operations in-house and continue to maintain lower spare parts inventory levels.

Since December 2014, our Company had adopted an innovative asset management model and established Eastern Airlines Technology Co. Ltd. ("Eastern Technology") to explore the transformation of supporting assets to operational assets.

In 2015, Eastern Technology, our wholly-owned subsidiary engaged in aircraft maintenance, raised its standards for aircraft maintenance and construction management to facilitate our centralized control over aircraft maintenance, and focused on high-end premium operations, such as providing maintenance services for aircraft for Chinese routes operated by international airlines and sharing of aviation equipment.

### *Safety*

The provision of safe and reliable air services for all of our customers is one of our primary operational objectives. We implement uniform safety standards and safety-related training programs in all operations. Our flight safety management division monitors and supervises our Company's flight safety. We have had a flight safety committee since the commencement of our business, comprised of members of our senior management, to formulate policies and implement routine safety checks at our Shanghai headquarters and all provincial hubs. The flight safety committee meets monthly to review our overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. We have also implemented an employee incentive program, using a system of monetary rewards and discipline, to encourage compliance with the CAAC safety standards and our safety procedures. We periodically evaluate the skills, experience and safety records of our pilots in order to maintain strict control over the quality of our pilot crews. In 2011, we were awarded the "Flight Safety Five-star Award" by CAAC for our commitment to aviation and operations safety.

In 2013, we continued to strengthen our Safety Management System ("SMS"). We issued work implementation plans that provided specific measures to address risks such as lighting strikes, hard aircraft landings and communication systems failures. In addition, we established the Nantong Airport training base to provide additional training programs for our flight crews. Furthermore, we formulated the "Assessment and Remuneration Packages of Star-rating flight Crew Members", which commenced star-rating assessment of all flight crew members in terms of flight safety, flight quality, discipline and provision of services. The management of each of our provincial hub operations is responsible for the flight safety operations at the respective hub under the supervision of our flight safety management division. We prepare monthly safety bulletins detailing recent developments in safety practices and procedures and distribute them to each of our flight crew, the maintenance department and the flight safety management department. The CAAC also requires our Company to prepare and submit semi-annual and annual flight safety reports.

Regarding the strengthening of the SMS, we have (i) organized training for the administrators of safety management of all operating units, deepened the understanding for the construction of SMS, laying the ground work for SMS; (ii) followed our plans and orderly commenced the construction of the analytical network. We had a number of

cooperation meetings, discussing the master framework, which carries the system. We also introduced the concept of safety indicators for operational progress, rendering safety management more comprehensible; and (iii) continuously improved the risks database of the relevant routes and airports, strengthening the application of the different databases on the actual process of operation.

In 2014, we continued to facilitate the construction and application of the SMS and strictly implementing risk management. We also put greater efforts in safety inspection and supervision as well as fulfillment of responsibilities in relation to safety enhancement. We enhanced its flight training management and commenced specialized training covering pilots management and transition to B777-300ER aircraft to reinforce the foundations of flight safety. Emphasizing technology applications, we established a research institute of flight safety technology application to provide intellectual support to our ongoing safe operations.

All of our jet passenger aircraft pilots participated in the manufacturer training and support programs sponsored by Airbus and Boeing and are required to undergo recurrent flight simulator training and to participate in a flight theory course periodically. We use flight simulators for A320, A330, A340, B737NG, B737-300, B777 aircraft at our own training facility, the training facility located in the CAAC training center or overseas training facilities.

We placed great emphasis on ensuring safe operation and will continue to do so. In 2015, we established an integrated management and control model incorporating regional management, safety audit and safety supervision to further improve our safety management and control system, and pushed ahead the establishment of the Management of Risk Control System (MORCS) to enhance safety risk prevention on an ongoing basis. We have also promoted phase 2 of the Electronic Flight Bag, focusing on technical difficulties such as operation of aboveplateau airports, and has been enhancing our research capability in flying technology, providing psychological support to our pilots and improving emergency drills to strictly implement in-flight safety requirements. In September 2015, we were granted the “Safe Flight Diamond Award”, the highest accolade for flight safety in the industry, by the CAAC.

## Cyber-security

With respect to our internal policies on cyber-security and internet safety, we have established an information safety management system and issued internal regulations on cyber-security, internal hardware and data safety systems to prevent loss of information due to cyber-security incidents, network outages or hardware incidents. We also plan to implement measures relating to the office environment information safety management and information system emergency management, information system access control, protection from any malicious software, management of information exchange tools and internal review and audit of information safety risks. Furthermore, we have entered into a strategic cooperation plan with the China Information Technology Security Evaluation Center by which their trained engineers evaluate our internal data security policies and cyber-security measures. In 2012, we established and announced two internal regulations relating to cyber-security, namely, China Eastern Airlines Information Security Management Regulation and China Eastern Airlines Information System Application and Development Safety Regulation and in 2013, we established and announced another two internal regulations relating to cyber-security, namely, China Eastern Airlines Information Security Incident Management Regulation and China Eastern Airlines Information System Classification Measures, which we believe will strengthen our information safety management systems and overall cyber-security defenses. During the year ended December 31, 2014, we did not experience any material cyber-security incidents or related losses.

In 2014, regarding the risks in relation to internet security of the aviation section, we took the following preventive measures: (i) putting in place a monitoring system; (ii) clarifying the responsibilities relating to internet, mainframe computer, operation and maintenance, product development and management; (iii) having internet security equipment; (iv) having manual inspection and (v) preparing for emergency response.

In June 2014, we promulgated documents Class I to V for CEA Information Security Management System, including directions, management requirements, operation manual and recorded output documents at security level, and passed the ISO27001 (international information security standard) certificate qualification in November 2014. Our internet security policy was synchronized with the ISO27001.

In 2015, we established a routine inspection system and a contingency mechanism for its reporting website for external security breach. The data loss prevention (DLP) project was implemented and our information security management system passed the ISO27000 certification. In the future, we will further improve our security code review and management system, promote the construction of IPS at the internet portal and the information technology disaster backup centre to elevate the overall protection level on our information system security.

We did not purchase any insurance for internet security.

## **Fuel Supplies**

Fuel costs represented approximately 23.4% of our operating expenses in 2015. We currently purchase a significant portion of the aviation fuel for our domestic routes from regional branches of the CAOSC. Fuel costs in China are affected by costs at domestic refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China. Fuel prices at six designated major airports in China, namely, the airports in Shanghai Pudong, Shanghai Hongqiao, Beijing, Guangzhou, Shenzhen and Tianjin, are set and adjusted once a month by the CAAC in accordance with prevailing fuel prices on the international market. For our international routes, we purchase a portion of our aviation fuel from foreign fuel suppliers located at the destinations of these routes, generally at international market prices.

In 2015, we consumed approximately 5.3 million tonnes of fuel, an increase of 1.7% from 2014. Our aviation fuel expenditures in 2015 reached RMB20,312 million, representing a decrease of 32.8% from RMB30,238 million in 2014, as a result of the decrease in average price of fuel. In 2015, the average price of fuel decreased by 39.9% compared to that of 2014. We cannot assure you that fuel prices will not further fluctuate in the future. Further, due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased fuel costs we may encounter in the future. However, we intend to continue focusing on enhancing our jet fuel procurement policies and developing additional internal cost-control measures, which include streamlining the number of aircraft models in our fleet and optimizing route structures, which we believe will enable us to control our fuel costs.

## **Ground Facilities and Services**

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

We have our own ground services and other operational services, such as aircraft cleaning and refueling and the handling of passengers and cargo for our operations at Hongqiao International Airport and Pudong International Airport. We also provide ground services for many other airlines that operate to and from Hongqiao International Airport and Pudong International Airport.

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

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

Since August 2015, we have been constructing a foreign airline service centre and examining the market-oriented operational mechanism for ground services to further explore the transformation of supporting assets into operational assets.

## **Marketing and Sales**

### ***Passenger Operations***

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

We have also adopted customized strategies to market our services to particular travelers. We seek to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travelers, we focus on the frequency of flights between major business centers, convenient transit services and an extensive sales network. We launched our initial frequent flyer program in 1998 and joined the "Asia Miles" frequent flyer program in April 2001 to attract and retain travelers. In August 2003, we upgraded and rebranded our frequent flyer program to "Eastern Miles" and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels, restaurants and other service providers that are our strategic partners. As a result of our continual efforts to develop the "Eastern Miles" program, the number of members of the frequent flyer program reached over 22.8 million in 2014. The special services hotline "95530" call center was established and came into

operation in 2004. In light of the expansion of national high-speed railway network, we have cooperated with the Shanghai Railway Bureau to launch "Air-Rail Pass Transportation" products. Our domestic and international flights together with its high-speed railway products at Shanghai Hongqiao International Airport and Shanghai Pudong International Airport have formed an air-rail two-way transportation product, which has helped us broaden our customer resources.

In terms of our customer resources, we have actively explored and expanded our customer base of high-end business travelers to accelerate the development of group clients. In addition, we have fully promoted the expansion of Eastern Miles membership. In order to attract more members and to provide members with better experience in terms of diversity, comprehensiveness and flexibility, we have strengthened our cooperation with retail store owners by increasing the number of co-operative stores, covering various industries such as financial services, hotel, car rental and health services. By the end of 2015, we had approximately 3.6 million new Eastern Miles members, with a total of over 26.4 million members.

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

In 2015, Eastern E-Commerce, a wholly-owned subsidiary of the Group, focused on five major business segments, including operation of e-commerce platform, non-aviation points for frequent travelers, points mall and online floating market, digital marketing and integrated non-aviation products to explore transformation resources, such as customers, points and offline contact points. The research and development plans for 32 types of integrated products in 10 categories were formulated to launch 7 types of travel-related services, such as pick-up services, valet parking and tourism services. We frequently updated our e-commerce platforms, namely our mobile application sales terminal and our official website, to continuously bring in new service functions and improve customer experience.

### ***Ticket Booking Systems***

In 2002 and again in 2012, we upgraded our online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. In 2012, we also expedited the construction of nine overseas websites in a variety of languages. Currently, our global website covers North America, Australia, Europe and Asia Pacific. We continue to encourage our customers to book and purchase tickets via the Internet by initiating various promotional campaigns and upgrading and expanding the services offered by our online sales system. In 2012, we introduced "China Eastern Mobile E", a smartphone application that provides mobile flight booking, flight status and online checking services, which we believe will provide our customers with additional convenient, value-added services. In 2013, we introduced a new version of China Eastern Mobile E and increased the application of "China Eastern Mobile E" to 14 airports. In addition, we introduced "M Website", a website portal that provides mobile flight booking, flight status and online checking services and applied several third-party payment platforms to our ticket booking system.





By September 2014, the mobile platform realized self-service applications such as mobile check-in of 139 domestic cities plus 3 overseas cities, self change of arrangement service for irregular flights, Eastern Miles QR code membership and the number of registered members amounted to 800,000 people with the mobile sales breaking a record of RMB3.60 million in a single day.

We also increased the success rate of website payment. At the end of September 2014, work regarding the international unified payment channel achieved the success rate of 62.1% and is still being optimized.

In addition, we updated the ability for sale activities and self-service. As of July 31, 2014, sale activities via the CEA official website and the mobile platforms (except limited time special discount during weekend nights) amounted to an accumulated amount of RMB310 million, which accounted for 4.3% of the total sale via website. As of September 30, 2014, mobile and web check-in had been implemented to support up to 142 cities domestically and abroad, covering most of our navigation points.

We also maintain an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of our airline tickets are sold by domestic and international sales agents who have contractual relationships with us. Currently, our direct domestic ticket sales are handled primarily through employees based at our ticket counters located at airports such as Hongqiao International Airport and Pudong International Airport in Shanghai and in Anhui, Zhejiang, Shandong and Yunnan provinces, as well as at airports in Beijing, Chengdu, Fuzhou, Guangzhou, Hangzhou, Shenzhen, Xiamen and Yantai. Direct sales are also promoted through the availability of our telephone reservation and confirmation services. In addition to our domestic sales agents located in various cities in mainland China, Hong Kong, Macau and Taiwan, we maintain overseas sales or representative offices worldwide, including: (i) North American locations such as Honolulu, Los Angeles, New York, San Francisco and Vancouver; (ii) European and Middle Eastern locations such as Frankfurt, Hamburg London, Moscow, Paris, Rome, Madrid, Brussels and Munich; (iii) Asia-Pacific locations such as Seoul, Tokyo, Osaka, Nagoya, Fukuoka, Hiroshima, Sapporo, Niigata, Fukushima, Okinawa, Shizuoka, Kanazawa, Toyama, Nagasaki, Kagoshima, Okayama, Matsuyama, Singapore, Bangkok, Phuket, New Delhi, Kolkata, Kuala Lumpur, Ho Chi Minh, Bali, Dubai, Dhaka, Phnom Penh, Siem Reap, Vientiane, Yangon, Mandalay, Kathmandu and Maldives; and (iv) Australian locations such as Melbourne and Sydney. We maintain more than 50 overseas sales or representative offices as of December 31, 2014. As of June 1, 2008, we stopped issuing paper tickets for air travel in accordance with a mandate from the International Air Transport Association ("IATA"). The IATA represents approximately 240 airlines and comprises approximately 84% of scheduled international air traffic. As a result of the mandate, we now issue electronic itineraries and receipts as well as electronic tickets to our passengers. We believe the transition to 100% electronic ticketing will decrease administrative costs and increase flexibility and travel options for passengers in addition to benefiting the environment through the reduced need for paper. All of our direct passenger ticket sales are recorded on our computer systems. Most Chinese airlines, including us, are required to use the passenger reservation service system provided by the CAAC's computer information management center, which is linked with the computer systems of major Chinese commercial airlines. We have also entered into membership agreements with several international reservation systems, including ABACUS, the largest computer reservation system in southeast Asia, TOPAS of Korea, SABRE, GALILEO and WORLDSPAN of the United States, AMADEUS of Europe, INFINI and AXESS of Japan and Sirena-Travel of Russia, which have made it easier for customers and sales agents to make

reservations and purchase tickets for our international flights.

### *SkyTeam Alliance*

We officially joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes international carriers such as, among others, Delta, China Southern, Alitalia, Air France and KLM, on June 21, 2011. The entry of our Company as well as Shanghai Airlines into SkyTeam became effective on June 21, 2011.

By the end of 2015, we have entered into frequent flyer and airport lounges agreements with 20 SkyTeam member airlines and implemented code-sharing programs covering 670 routes, as well as 336 routes with non-SkyTeam member airlines, which has further broadened the coverage of our route network.

By connecting to the route networks of other SkyTeam member airlines, we are able to offer its passengers seamless transit to 1,057 destinations in 179 countries under a single plane ticket with direct luggage services as of December 31, 2015. Passengers may also enjoy the comfort of approximately 636 VIP airport lounges of SkyTeam around the world. We believe this will be another benefit for our passengers, as they will be afforded additional flight options and frequent flyer mileage benefits through our SkyTeam alliance partners. In addition, our Company will benefit from possible codeshare and cooperative flight options, reduced costs and increased alliance-related marketing and promotion overseas.

### *Cargo Operations and Logistics Services*

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

In 2012, we leveraged on our internal resources to establish a business platform that provides diversified logistics and management solutions and services through Eastern Logistics, which includes the integrated operations of China Cargo Airlines and Shanghai Far Eastern Airlines Logistics Co., Ltd. Eastern Logistics is engaged in shipping agency, ground cargo handling, logistics, road freight transport (general freight), warehousing and property management. We believe Eastern Logistics will enable us to develop new revenue sources and diversify our ancillary operations, while responding to customer demand for one-stop cargo transportation and logistics services. See "Item 7. Major Shareholders and Related Party Transactions."

In response to the deteriorating aviation freight transportation market condition, we 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, we 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." Our subsidiary, Shanghai Eastern Airlines Express Delivery Company Limited, officially commenced operation of cross-border e-commerce in 2013 in the Shanghai Free Trade Zone.

On June 5, 2013, our subsidiary, China Cargo Airlines, officially joined the SkyTeam Freight Alliance, which will enable it to further expand its cargo network coverage, strengthen its transit capacity, provide better and more efficient ground services, while lowering operational costs.

In 2014, we focused on the improvement on customer management, freight management and product management and comprehensively enhanced the operation standard of traditional air freight. In terms of customer management, we completed the client structure design and the CRM process flow design; we built the customer relationship management system and established customer incentives policy. We had four new customers, including FedEx, and commenced strategic cooperation with HKCTS and Sinotrans for our international routes development. Regarding domestic routes, we strengthened our cooperation with S.F. Express and EMS. Regarding freight rates management, we completed the new design for the freight rates system and started testing in some of the routines in terms of policy; optimized the monitoring requirements of rate controls and implemented the construction of the freight rates module for the revenue management system; established internal real-time information interaction processes and improved the efficiency and accuracy of the benefit analysis and decision-making. Regarding product management, we completed the system design for the four major products: route network, service guarantee, standardization and customization, comprehensively covering the development needs of freight products and satisfying the sustainable development of freight products. We expended extensive efforts in the development of route network products and published the route seeker app, realizing the integration of resources of the entire network.

We also tactically expanded the network. Through reduction for optimal capacity and flexible purchase of capacity, we continuously consolidated the Europe and America route network and maintained our leading position in terms of the Europe and America market share. We also developed the Zhengzhou regional hub, and commenced the Zhengzhou to Amsterdam and Chicago freight route network, and established the regulated truck delivery networking having Zhengzhou as the center, covering 28 points across the PRC.

We explored with full efforts the potential of bellyhold through the introduction of localized products, cargo-flight projects, removal of routes with "0 and low" income, international return flight expansion projects, implementation of the reward and punish system which increases volume and income, strengthening of monitoring of external sites and addition of "newly added" customers, we consolidated the output of external sites and transformation units, leading to an increase of 2.8% of bellyhold compared to the same period the previous year.

In 2015, Eastern Logistics tightened its cost control, optimized production structure, broadened marketing channels and strived to stabilize transportation prices. In terms of traditional freight transportation operation, China Cargo Airlines Co., Ltd. streamlined its fleet scale and terminated the leases for three older freighters, thereby reducing operating costs. Route network of Shanghai hub was optimized to reduce the number of intermediate points and improve operating efficiency, thus increasing the daily utilization rate of freighters for the whole year by more than 8% as compared to last year. Layout of flight capacity was adjusted based on market demand to stabilize flight capacity for the core markets in Europe and America. Efforts have also been made to broaden sourcing channels and strengthen joint cooperation. As such, the air-freight transit volume increased by nearly 10% as compared to last year. In terms of freight transportation logistics, Eastern Logistics focused on the construction of the core logistics platform for pharmaceutical logistics and aviation equipment as well as the establishment of the transit marketing platform to perfect its thirdparty logistics solution. Distribution channels of [www.eaemall.com](http://www.eaemall.com) have been expanded to construct CEA's rapid supply chain. Through proactively expanding cooperation with cross-border e-commerce partners, the first chartered aircraft for directly imported goods purchased via cross-border e-commerce in the PRC came into service, increasing the annual revenue from crossborder logistics by approximately 32% as compared to last year.

## **Tourism and Travel Services**

In addition to our airline operations, we also generate commission revenues from tickets sold on behalf of other airlines. Commission rates for these sales are determined by the CAAC and are based on the price of the tickets sold. In December 2003, we acquired 10% of SEDC's then equity interest and 35% of CEA Holding's then equity interest in Shanghai Dong Mei Aviation Travel Corporation Limited, a company that is primarily engaged in the business of selling air tickets, hotel reservation, travel agency and other related services.

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

We also derive revenues from the provision of airport ground services for airlines operating to or from Hongqiao International Airport and Pudong International Airport, including aircraft cleaning, loading, unloading, storage and ground transportation of cargo and passenger luggage. At present we are the principal provider of these services at Hongqiao International Airport and Pudong International Airport. We provide these services to foreign carriers generally pursuant to one-year renewable contracts. In 2015, we generated net revenues of approximately RMB3,296 million from our airport ground services and cargo handling and processing services, compared with RMB2,680 million and RMB2,915 million, respectively, generated from such services in 2014 and 2013.

## **Patents and Trademarks**

We own or have obtained licenses to use various domestic and foreign patents, patent applications and trademarks related to our business. While patents, patent applications and trademarks are important to our competitive position, no single one is material to us as a whole. In addition, we own various trademarks related to our business. The most important trademark is the service trademark of China Eastern Airlines Corporation Limited. All of our trademarks are registered in China. As of December 31, 2015, we own or have obtained licenses to use 58 trademarks, the number remained stable as of December 31, 2014.

## **Insurance**

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

### **C. Organizational Structure**

See the section headed "Item 4. Information on the Company — History and Development of the Company".

### **D. Property, Plant And Equipment**

#### **Fleet**

As of December 31, 2015, we operated a fleet of 551 aircraft, including 526 passenger aircraft, most with a seating capacity of over 100 seats, 9 freighters and 16 business aircraft held under trust. In 2015, we introduced a total of 80 aircraft of major models and a total of 42 aircraft of various models, including A340-600, B757 series and EMB-145LR retired. With the complete retirement of A340-600 and B757 series aircraft, the variety of aircraft models of our fleet has been further streamlined and the fleet structure has been made younger.

We plan to continue to expand our scale in the future and to adjust and optimize our route network, thereby increasing our competitiveness and ability to create more attractive products and services to meet the needs of the market.

### *Existing Fleet*

The following table sets forth the details of our fleet as of December 31, 2015:

	Number of Aircraft Owned and under Finance Lease	Aircraft under Operating Lease	Total Number of Aircraft	<b>Average Age (in years) <sup>(1)</sup></b>
Jet Passenger Aircraft:				
Wide-body:				
B777-300ER	9	-	9	0.8
B767	6	-	6	14.7
A330-300	11	7	18	7.4
A330-200	30	3	33	3.3
Narrow-body:				
A321	48	-	48	4.5
A320	122	38	160	6.5
A319	31	4	35	3.6
B737-800	71	72	143	4.1
B737-700	55	8	63	7.0
B737-300	5	-	5	13.3
EMB 145LR <sup>(2)</sup>	6	-	6	8.7
Total Passenger Aircraft:	394	132	526	5.4
Cargo Aircraft:				
B747-400F	2	1	3	8.9
B777F	-	6	6	5.2
Total Cargo Aircraft:	2	7	9	6.4
Total number of passenger aircraft and freighters	396	139	535	5.5
	<i>No. of custody</i>			
Business Aircraft			16	
Total Fleet			551	

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

(2) These aircrafts will retire from our Group's fleet operation and will be disposed in 2016.

Our daily average aircraft utilization rate was 10.0 hours in 2015, increasing slightly from 9.4 hours in 2014.

The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the years ended December 31, 2013 and 2014:

	2013	2014
	(in hours)	
Wide-body:		
B777-300ER	-	10.7
B767	-	8.9
A340-600	11.8	10.5
A330-300	9.0	9.0
A330-200	14.3	13.4
A300-600	6.8	-
B767-300	9.6	-
Narrow-body:		
A321	8.9	9.2
A320	9.9	9.9
A319	9.2	9.2
B737-800	10.2	10.0
B737-700	9.8	10.0
B737-300	8.6	7.0
EMB 145LR	8.1	5.7
Total Passenger Aircraft Average	9.8	9.4



The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the year ended December 31, 2015:

	2015 (in hours)
<b>Jet Passenger Aircraft:</b>	
<b>Wide-body:</b>	
B777-300ER	14.0
B767	8.5
A330-300	9.1
A330-200	13.5
<b>Narrow-body:</b>	
A321	9.2
A320	10.0
A319	9.6
B737-800	10.1
B737-700	9.2
B737-300	6.6
Total Passenger Aircraft average	10.0
<b>Cargo Aircraft:</b>	
B747-400F	11.8
B777F	13.7
Total Cargo Aircraft average	13.1
Total number of passenger aircraft and freighters average	10.0

Most of our jet passenger aircraft were manufactured by either Airbus or Boeing. On July 9, 2015, we entered into a purchase agreement with Boeing Company to purchase fifty new Boeing B737 series aircraft which are expected to be delivered to the Company in stages from 2017 to 2019. On August 14, 2015, we also entered into a purchase agreement with Airbus SAS to purchase fifteen new Airbus A330 series aircraft which are expected to be delivered to the Company in stages from 2017 to 2018.

### ***Future Fleet Development***

Our aircraft acquisition program focuses on aircraft that will modernize and rationalize our fleet to better meet the anticipated requirements of our route structure, taking into account aircraft size and fuel efficiency. Our aircraft acquisition program, however, is subject to the approval of the CAAC and the NDRC. Our fleet 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 2016 to 2017 are as follows:

Model	2016E		2017E	
	Introduction	Retirement	Introduction	Retirement
Passenger aircraft				
A320 Series	30	8	15	1
A330 Series	-	-	7	-
B777 Series	7	-	4	-
B737 Series	35	12	26	17
EMB-145LR	-	6	-	-
Total number of passenger aircraft	72	26	52	18
Freighters				
B747-400F	-	-	-	1
Total number of freighters	-	-	-	1
Total	72	26	52	19

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

### ***Fleet Financing Arrangements***

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

### **Operating Facilities**

Our Company (including subsidiaries and branches) had operations on 95 parcels of land, occupying a total area of approximately 5.4 million square meters, as of December 31, 2015. In addition, as of December 31, 2015, our Company (including subsidiaries and branches) owned approximately 1,879 buildings with a total gross floor area of approximately 1.2 million square meters. Our Company and major subsidiaries have obtained the land use rights certificates and building ownership certificates for certain parcels of land and buildings, and are currently in the process of applying for the certificates with respect to the remaining parcels and buildings.

### **Item 4A. Unresolved Staff Comments**

None.

## Item 5. Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our audited consolidated financial statements, together with the related notes, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with IFRS. This discussion may include forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Item 3. Key information — D. Risk Factors" or in other parts of this Annual Report.

### Overview

Our primary business is the provision of domestic, regional (which includes Hong Kong, Macau and Taiwan) and international passenger and cargo airline services. Our overall capacity on an available tonne kilometer, or ATK, basis increased by 11.8%, from 22,538.5 ATKs in 2014 to 25,203 ATKs in 2015, and our passenger capacity on an available seat kilometer, or ASK, basis increased by 13.2%, from 160,585.1 ASKs in 2014 to 181,792.9 ASKs in 2015. Total traffic on a revenue tonne kilometer, or RTK, basis increased by 10.5%, from 16,122.4 RTKs in 2014 to 17,820.43 RTKs in 2015.

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

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

## **Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. We have established procedures and processes to facilitate the making of such judgments in the preparation of our consolidated financial statements. Management has used the best information available but actual performance may differ from our management's estimates and future changes in key variables could change future reported amounts in our consolidated financial statements.

### ***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 our activities. Revenue is stated net of business taxes or value-added taxes, returns, rebates and discounts and after eliminating sales within us.

Revenue is recognized when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably, on the following basis:

#### **(i) Traffic revenues**

Passenger, cargo and mail revenues are recognized as traffic revenues when the transportation services are provided. The value of sold but unused tickets is recognized as sales in advance of carriage (the "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 recognized when the services are rendered.

#### **(iii) Cargo handling income**

Revenues from the provision of cargo handling income are recognized when the service are rendered.

(iv) Commission income

Commission income represents amounts earned from other carriers in respect of sales made by us on their behalf, and is recognized 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 recognized when the services are rendered.

(vi) Frequent flyer programs

We operate frequent flyer programs that provide travel awards to program members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired.

(vii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest rate method.

***Intangible assets***

*Goodwill*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of our 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, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. We perform our annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether our other assets or liabilities are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

#### *Computer software costs*

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives of 5 years. Costs associated with developing or maintaining computer software programs are recognized as expenses when incurred.

#### *Property, plant and equipment*

Property, plant and equipment is recognized 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 recognized 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 derecognized and charged to profit or loss.

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



Owned and finance leased aircraft and engines	15 to 20 years	0% or 5%
Other flight equipment, including rotables	10 years	0%
Buildings	8 to 45 years	3% to 5%
Other property, plant and equipment	3 to 20 years	3% to 5%

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each financial year end. The carrying amount of an item of property, plant and equipment is written off immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

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

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

### ***Leases***

#### *(i) As lessee*

##### Finance leases

Leases where we have acquired substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the assets and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in current portion of obligation under finance leases and obligations under finance leases, respectively. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets are depreciated using a straight-line basis over their expected useful lives to residual values.



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

#### Operating leases

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

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognized immediately in profit or loss, except to the extent that any profit or loss is compensated for by future lease payments at above or below market value, then profit or loss is deferred and amortized over the period for which the asset is expected to be used.

#### *(ii) As lessor*

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

#### ***Retirement benefits***

#### *(i) Defined contribution plans*

We participate in schemes regarding pension and medical benefits for employees organized by the municipal governments of the relevant provinces. Contributions to these schemes are expensed as incurred.

#### *(ii) Defined benefit plan*

We provide eligible retirees with certain post-retirement benefits including retirement subsidies, transportation allowance as well as other welfare. The defined post-retirement benefits are unfunded. The cost of providing benefits under the post-retirement benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from 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 recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that we recognize restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. We recognize the following changes in the net defined benefit obligation under “Wages, salaries and benefits” and “Finance costs” in profit or loss:

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

### ***Available-for-sale investments***

Investments in securities other than subsidiaries, associates and joint ventures, being held for non-trading purposes, are classified as available-for-sale investments and are recognized on the trade-date – the date on which we commit to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. At each reporting date, the fair value is remeasured, with any resulting gain or loss being recognized directly in other comprehensive income, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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

### ***Income tax***

Income tax for the period comprises current and deferred tax. Income tax is recognised in profit or loss, except that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

### ***Going concern***

As set out in Note 2.1 to the consolidated financial statements, our ability to continue operations depends on obtaining the necessary financing and continued operations to generate sufficient cash flows to meet our liabilities as they fall due and the capital expenditure requirements for the upcoming twelve months. In the event we are unable to obtain adequate funding, there is uncertainty as to whether we will be able to continue as a going concern. The consolidated financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should we be unable to continue as a going concern.

### **Critical Accounting Estimates and Judgments**

Estimates and judgments used in preparing the consolidated 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. We make 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.

#### ***Revenue recognition***

We recognize traffic revenues in accordance with the accounting policy stated in Note 2 to the consolidated financial statements. Unused tickets are recognized 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.



***Frequent flyer program***

We operate frequent flyer programs that provide travel awards to program members based on accumulated miles. A portion of passengers' revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired. The deferment of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilization of these benefits and estimated fair values of the unredeemed miles. Different judgments or estimates could significantly affect the estimated provision for frequent flyer programs and the results of operations.

***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.

***Retirement benefits***

We operate and maintain a defined retirement benefit plan which provides eligible retirees with benefits including retirement subsidies, transportation allowance as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employee's service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2 to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and etc. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions.

Additional information regarding the retirement benefit plan is disclosed in Note 37 to the consolidated financial statements.

***Deferred income tax***



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

***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 realizable value. The net realizable value is estimated based on current market condition, historical experience and our 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.

***Depreciation of property, plant and equipment***

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

Except for components related to engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. We review 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.

***Estimated impairment of property, plant and equipment and intangible assets***

We test whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2 to the consolidated financial statements. The recoverable amount of cash generating unit has been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometers yield level, load factor, aircraft utilization rate and discount rates, etc.



***Impairment of goodwill***

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

**Operating Segments**

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by our chief operating decision-maker ("CODM"). Our 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 Company has one reportable operating segment, reported as "airline transportation operations." See Note 7 to our audited consolidated financial statements.

**A. Operating Results**

The following tables set forth our summary consolidated statements of profit or loss and other comprehensive income and financial position data as of and for the years indicated:

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
	(in millions, except per share data)				
<b>Summary Consolidated Statements of Profit or Loss and Other Comprehensive Income Data</b>					
Revenues	82,403	85,253	88,245	90,185	93,969
Gain on fair value changes of derivative financial instruments	87	25	18	11	6
Other operating income and gains	1,062	1,833	2,725	3,685	5,269
Operating expenses	(79,288)	(82,759)	(89,412)	(87,823)	(86,619)
Operating profit	4,264	4,352	1,576	6,058	12,625
Finance income / (costs), net	561	(1,349)	576	(2,072)	(7,110)
Profit before income tax	4,932	3,137	2,217	4,113	5,667
Profit for the year attributable to the equity holders of the Company	4,661	3,072	2,373	3,410	4,537

Basic and fully diluted earnings per share (1)	0.41	0.27	0.20	0.27	0.35
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As of December 31,

	2011	2012	2013	2014	2015
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>

(in millions)

## Summary Consolidated Statements of Financial Position Data

Cash and cash equivalents	3,861	2,512	1,995	1,355	9,080
Net current liabilities	(29,679 )	(35,948 )	(40,472 )	(42,887 )	(51,309 )
Non-current assets	101,092	111,214	127,458	147,586	174,914
Long term borrowings, including current portion	(30,321 )	(32,856 )	(36,175 )	(41,210 )	(43,675 )
Obligations under finance leases, including current portion	(20,261 )	(21,858 )	(23,135 )	(38,695 )	(52,399 )
Total share capital and reserves attributable to the equity holders of the Company	17,132	20,207	26,902	29,974	37,411
Non-current liabilities	(52,687 )	(53,530 )	(58,404 )	(72,928 )	(83,674 )
Total assets less current liabilities	71,413	75,266	86,986	104,699	123,605

The calculation of earnings per share for 2011 and 2012 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 11,276,538,860 ordinary shares in issue. The calculation of earnings per share for 2013 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,091,881,000 ordinary shares in issue. The calculation of earnings per share for 2014 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,674,269,000 ordinary shares in issue. The calculation of earnings per share for 2015 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,818,509,000 ordinary shares in issue.

## 2015 Compared to 2014

### Revenues

Our revenues increased by 4.2%, from RMB90,185 million in 2014 to 93,969 million in 2015. Revenues increased in our passenger business operations, primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights, which was partially offset by decreased revenue in our cargo and mail business operations, primarily due to a general slowdown of the global economy that affected cargo demand and, consequently, our cargo volumes.

In 2015, we transported a total of 93.8 million passengers, representing an increase of 11.9%, from 83.8 million passengers in 2014. Our total passenger traffic (as measured in RPKs) increased by 14.6%, from 127,750 million passenger-kilometers in 2014 to 146,342 million passenger-kilometers in 2015 and our total cargo and mail traffic (as measured in RFTKs) increased by 1.31%, from 4,802 million freight tonne-kilometers in 2014 to 4,865 million freight tonne-kilometers in 2015. Our average yield for our passenger operations decreased by 8.2% from RMB0.61 per passenger-kilometer in 2014 to 0.56 in 2015.

Our average yield for our cargo and mail operations decreased by 14.2%, from RMB1.55 per tonne-kilometer in 2014 to RMB1.33 per tonne-kilometer in 2015, primarily due to the general slowdown of the global economy that affected cargo demand and, consequently, our cargo volumes.

The following chart sets forth our revenue breakdown for 2014 and 2015:

	Year Ended		2015 vs. 2014	
	December 31, 2014	December 31, 2015	Increase	% Increase
	(in millions of RMB)		(Decrease)	(Decrease)
Traffic revenues	82,589	85,076	2,487	3.0
Passenger revenue	75,261	78,585	3,324	4.4
Cargo and mail revenue	7,328	6,491	(837)	(11.4)
Others <sup>(1)</sup>	7,596	8,893	1,297	17.1
<b>Total Operating Revenue</b>	<b>90,185</b>	<b>93,969</b>	<b>3,784</b>	<b>4.2</b>

(1)Includes tour operations income, ground service income, cargo handling income, commission income and others.

### *Passenger revenues*

Our passenger traffic revenues increased by RMB3,324 million, or 4.4%, from RMB75,261 million in 2014 to RMB78,585 million in 2015. This increase was primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights, as well as actively seizing the opportunities brought by the international low oil prices and robust demand for outbound tourism.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 65.6% of our total passenger traffic revenues in 2015, decreased by 0.2%, from RMB51,647 million in 2014 to 51,523 million in 2015. which remained relatively stable. Compared to 2014, our domestic passenger traffic (as measured in RPKs) increased by 11.5%, from 88,191 million in 2014 to 98,304 million in 2015. The number of passengers carried on domestic routes increased by 10.4%, from 71.0 million in 2014 to 78.4 million in 2015. Our passenger-kilometers yield for domestic routes decreased by 9.8% from RMB0.61 per passenger-kilometer in 2014 to 0.55 in 2015.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for 4.0% of our total passenger traffic revenues in 2015, decreased by 5.6%, from RMB3,313 million in 2014 to RMB3,129 million in 2015, primarily due to the decrease in our passenger-kilometers yield for regional routes. The number of passengers carried on Hong Kong, Macau and Taiwan routes decreased by 3.1%, from 3.2 million in 2014 to 3.1 million in 2015. Our passenger-kilometers yield for regional routes decreased from RMB0.79 per passenger-kilometer in 2014 to 0.75 per passenger-kilometer in 2015.

International passenger traffic revenues, which accounted for 30.5% of our total passenger traffic revenues in 2015, increased by 17.9%, from RMB20,301 million in 2014 to RMB23,933 million in 2015. The increase was primarily due to increased international passenger demand, increased aircraft utilization rates and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by 24.6% in 2015, from 35,191 million in 2014 to 43,848 million in 2015. The number of passengers carried on international routes increased by 28.1%, from 9.6 million in 2014 to 12.3 million in 2015. Our passenger-kilometers yield for international routes decreased slightly from RMB0.59 per passenger-kilometer in 2014 to RMB0.56 per passenger-kilometer in 2015.

*Cargo and mail revenues*

Our cargo and mail traffic revenues decreased by 11.4%, from RMB7,328 million in 2014 to RMB6,491 million in 2015, which accounted for 7.6% of our total traffic revenues in 2015. Cargo and mail yield decreased by 14.2% from RMB1.55 in 2014 to RMB1.33 in 2015 per cargo tonne-kilometer, primarily as a result of the general slowdown and volatility of the global economy that affected cargo volumes.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for 16.0% of our total cargo and mail traffic revenues in 2015, decreased from RMB1,142 million in 2014 to RMB1,036 million in 2015. This decrease was primarily due to the increased competition from other cargo carriers which resulted in decreased shipping fees and cargo and mail volume. Our freight tonne-kilometers yield for domestic routes decreased from RMB1.27 per tonne-kilometer in 2014 to RMB1.09 per tonne-kilometer in 2015.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for 5.9% of our total cargo and mail traffic revenues in 2015, slightly decreased by 14.2%, from RMB443 million in 2014 to RMB380 million in 2015. Our freight tonne-kilometers yield for regional routes decreased from RMB3.47 per tonne-kilometer in 2014 to RMB3.01 per tonne-kilometer in 2015.

International cargo and mail traffic revenues, which accounted for 78.2% of our total cargo and mail traffic revenues in 2015, decreased by 11.6%, from RMB5,743 million in 2014 to RMB5,075 million in 2015, due to decreased demand in the international cargo and mail freight market as a result of the general slowdown of the international freight market. Our prices for cargo and mail transportation on international routes also decreased as our freight tonne-kilometers yield for international routes decreased from RMB1.55 per tonne-kilometer in 2014 to RMB1.34 per tonne-kilometer in 2015.

*Other revenues*

We also generated revenues from other services, including tour operations, airport ground services, cargo handling services and ticket handling services. These services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao International Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao International Airport and Pudong International Airport. Our total other revenues increased by 17.1%, from RMB7,596 million in 2014 to 8,893 million in 2015.

**Operating Expenses**

The following chart sets forth a breakdown of our operating expenses for the years ended December 31, 2014 and 2015:

	Year Ended		2015 vs. 2014	
	December 31, 2014	December 31, 2015	Increase % (Decrease)	Increase (Decrease)
(in millions of RMB)				
<b>Operating Expenses:</b>				
Aircraft fuel expenses	30,238	20,312	(9,926)	(32.8 )
Takeoff and landing charges	9,440	10,851	1,411	15.0
Depreciation and amortization	9,183	10,471	1,288	14.0
Wages, salaries and benefits	11,270	16,459	5,189	46.0
Aircraft maintenance	4,453	4,304	(149 )	(3.3)
Impairment charges	12	228	216	1800
Food and beverages	2,364	2,469	105	4.4
Aircraft operating lease rentals	4,502	4,254	(248 )	(5.5)
Other operating lease rentals	637	812	175	27.5
Selling and marketing expenses	4,120	3,651	(469)	(11.4)
Civil aviation development fund	1,656	1,826	170	10.3
Ground services and other expenses	4,998	5,479	481	9.6
Indirect operating expenses	4,950	5,503	553	11.2
<b>Total Operating Expense</b>	<b>87,823</b>	<b>86,619</b>	<b>(1,204)</b>	<b>(1.4)</b>

Our total operating expenses decreased by 1.4%, from RMB87,823 million in 2014 to RMB86,619 million in 2015 primarily due to a decrease in aircraft fuel costs, selling and marketing expenses and aircraft operating lease rentals. Our total operating expenses as a percentage of our revenues decreased from 97.4% in 2014 to 92.2% in 2015.



Aircraft fuel expenses decreased by 32.8%, from RMB30,238 million in 2014 to RMB20,312 million in 2015. The decrease was primarily due to the decrease in the average price of fuel in response to general market trends. In 2015, we consumed a total of approximately 5.3 million tonnes of aviation fuel, representing an increase of 11.7% compared to 2014. In 2015, the average price of fuel decreased by 39.9% compared to that of 2014. Aircraft fuel expenses accounted for 23.5% of our total operating expenses in 2015, as compared to 34.4% in 2014.

Take-off and landing charges, which accounted for 12.5% of our total operating expenses in 2015, increased by 15.0%, from RMB9,440 million in 2014 to RMB10,851 million in 2015, primarily due to an increase in the number of and the standard of fees charged for take-off and landings.

Depreciation and amortization increased by 14.0%, from RMB9,183 million in 2014 to RMB10,471 million in 2015, primarily due to an expansion in its fleet scale and the corresponding increase in the depreciation of assets.

Wages, salaries and benefits, which accounted for 19.0% of our total operating expenses in 2015, increased by 46.0%, from RMB11,270 million in 2014 to RMB 16,459 million, primarily due to a gain on settlement in 2014 from the amendment of employee benefit policies made in 2014. Additional information regarding the changes in our retirement benefits is disclosed in Note 37 to the consolidated financial statements.

Aircraft maintenance expenses, which accounted for 5.0% of our total operating expenses in 2015, decreased by 3.3%, from RMB4,453 million in 2014 to RMB4,304 million in 2015, primarily due to a year-on-year decrease in external aircraft maintenance brought by the improvement in our own maintenance ability.

Food and beverage expenses increased by 4.4% from RMB2,364 million in 2014 to RMB2,469 million in 2015, primarily due to an increase in the number of passengers.

Aircraft operating lease rentals decreased by 5.5%, from RMB4,502 million in 2014 to RMB4,254 million in 2015, primarily due to a decrease in the number of aircraft that we operate under operating leases.

Other operating lease rentals increased by 27.5%, from RMB637 million in 2014 to RMB812 million in 2015, primarily due to an increase in leasehold properties.

Selling and marketing expenses, which accounted for 4.2% of our total operating expenses in 2015, decreased by 11.4%, from RMB4,120 million in 2014 to RMB3,651 million in 2015, primarily due to a year-on-year decrease in the handling fees of agency businesses brought by the increase in the proportion of direct sales.

The amount of civil aviation infrastructure levies payable to the CAAC increased by 10.3%, from RMB1,656 million in 2014 to RMB1,826 million in 2015, primarily due to an increase in our miles flown in 2015.

Ground services and other expenses increased by 9.6%, from RMB4,998 million in 2014 to RMB5,479 million in 2015, primarily due to the increased volume of ground services.

Indirect operating expenses increased by 11.2%, from RMB4,950 million in 2014 to RMB5,503 million in 2015, primarily attributable to an increase in expenses following the expansion of our fleet.

#### ***Fair Value Changes of Derivative Financial Instruments***

Changes in fair value of derivative financial instruments decreased from a gain of RMB11 million in 2014 to a gain of RMB6 million in 2015. The difference was mainly due to the decrease in gains arising from fair value movement of interest rate swaps contracts.

#### ***Other Operating Income and Gains***

Our other operating income and gains were primarily generated from co-operation routes income. The total amount of our other operating income and gains increased by 43.0% from RMB3,685 million in 2014 to RMB5,269 million in 2015, primarily due to an increase in income from co-operation routes, income from government grants and gains from disposal of fixed assets. Other co-operation income represented income from co-operation routes granted to us by the PRC government and local governments as well as other subsidies granted by various local municipalities and other parties to encourage us to operate certain routes to cities where these municipalities are located.

### *Net Finance Costs*

In 2015, our finance income was RMB66 million, representing a decrease from RMB88 million in 2014, primarily due to a decrease in average balances of short-term bank deposits. Finance costs amounted to RMB7,176 million, representing an increase of 232.2%, primarily due to an increase in net exchange losses recognised in 2015 as a result of an appreciation of USD against RMB.

### *Profit Attributable to the Equity Holders of the Company*

As a result of the foregoing, the net profit attributable to the equity holders of the Company increased to RMB4,537 million in 2015, or 33.0%, as compared to a net profit of RMB3,410 million in 2014. The increase is mainly due to continuous improvement of our operating abilities and the decrease of jet fuel prices.

### *Property, Plant and Equipment*

Our Company had approximately RMB133,242 million of property, plant and equipment as of December 31, 2015, including, among other assets, aircraft, engines and flight equipment, representing a 21.8% increase from RMB109,439 million in 2014. The increase is mainly due to an increase in the number of aircrafts.

## **2014 Compared to 2013**

### *Revenues*

Our revenues increased by 2.2%, from RMB88,245 million in 2013 to RMB90,185 million in 2014. Revenues increased in our passenger business operations, primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights, which was partially offset by decreased revenue in our cargo and mail business operations, primarily due to a general slowdown of the global economy that affected cargo demand and, consequently, our cargo volumes.

In 2014, we transported a total of 83.8 million passengers, representing an increase of 6.0%, from 79.1 million passengers in 2013. Our total passenger traffic (as measured in RPKs) increased by 6.1%, from 120,461 million passenger-kilometers in 2013 to 127,750 million passenger-kilometers in 2014 and our total cargo and mail traffic (as measured in RFTKs) decreased by 1.1%, from 4,857 million freight tonne-kilometers in 2013 to 4,802 million freight tonne-kilometers in 2014. Our average yield for our passenger operations maintained stable at RMB0.61 per passenger-kilometer in 2013 and 2014.

Our average yield for our cargo and mail operations decreased by 1.3%, from RMB1.57 per tonne-kilometer in 2013 to RMB1.55 per tonne-kilometer in 2014, primarily due to the general slowdown of the global economy that affected cargo demand and, consequently, our cargo volumes.

The following chart sets forth our revenue breakdown for 2013 and 2014:

	Year Ended		2014 vs. 2013	
	December 31, 2013	December 31, 2014	Increase (Decrease)	% Increase (Decrease)
	(in millions of RMB)			
Traffic revenues	80,531	82,589	2,058	2.6
Passenger revenue	72,928	75,261	2,333	3.2
Cargo and mail revenue	7,603	7,328	(275 )	(3.6 )
Others <sup>(1)</sup>	7,714	7,596	(118 )	(1.5 )
<b>Total Operating Revenue</b>	<b>88,245</b>	<b>90,185</b>	<b>1,940</b>	<b>2.2</b>

(1) Includes tour operations income, ground service income, cargo handling income, commission income and others.

#### *Passenger revenues*

Our passenger traffic revenues increased by RMB2,333 million, or 3.2%, from RMB72,928 million in 2013 to RMB75,261 million in 2014. This increase was primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 68.6% of our total passenger traffic revenues in 2014, increased by 2.2%, from RMB50,556 million in 2013 to RMB51,647 million in 2014, primarily due to increased flight capacity on domestic routes and steady demand from the continued growth of the PRC economy. Compared to 2013, our domestic passenger traffic (as measured in RPKs) increased by 6.5%, from 82,812 million in 2013 to 88,191 million in 2014. The number of passengers carried on domestic routes increased by 5.8%, from 67.1 million in 2013 to 71.0 million in 2014. Our passenger-kilometers yield for domestic routes maintained stable at RMB0.61 per passenger-kilometer in 2013 and 2014.



Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for 4.4% of our total passenger traffic revenues in 2014, decreased by 3.3%, from RMB3,427 million in 2013 to RMB3,313 million in 2014, primarily due to the decrease in our passenger-kilometers yield for regional routes. The number of passengers carried on Hong Kong, Macau and Taiwan routes increased by 6.7%, from 3.0 million in 2013 to 3.2 million in 2014. Our passenger-kilometers yield for regional routes decreased from RMB0.85 per passenger-kilometer in 2013 to RMB0.79 per passenger-kilometer in 2014.

International passenger traffic revenues, which accounted for 27.0% of our total passenger traffic revenues in 2014, increased by 7.2%, from RMB18,945 million in 2013 to RMB20,301 million in 2014. The increase was primarily due to increased international passenger demand, increased aircraft utilization rates and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by 4.7% in 2014, from 33,600 million in 2013 to 35,191 million in 2014. The number of passengers carried on international routes increased by 6.7%, from 9.0 million in 2013 to 9.6 million in 2014. Our passenger-kilometers yield for international routes remained relatively stable from RMB0.56 per passenger-kilometer in 2013 to RMB0.59 per passenger-kilometer in 2014.

#### *Cargo and mail revenues*

Our cargo and mail traffic revenues decreased by 3.6%, from RMB7,603 million in 2013 to RMB7,328 million in 2014, which accounted for 8.1% of our total operating revenues in 2014. Cargo and mail yield decreased from RMB1.57 in 2013 to RMB1.55 in 2014 per cargo tonne-kilometer, or 1.3%, as compared to the same period in 2013, primarily as a result of the general slowdown and volatility of the global economy that affected cargo volumes.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for 15.6% of our total cargo and mail traffic revenues in 2014, decreased from RMB1,250 million in 2013 to RMB1,142 million in 2014. This decrease was primarily due to the increased competition from other cargo carriers which resulted in decreased shipping fees and cargo and mail volume. Our freight tonne-kilometers yield for domestic routes decreased from RMB1.30 per tonne-kilometer in 2013 to RMB1.27 per tonne-kilometer in 2014.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for 6.0% of our total cargo and mail traffic revenues in 2014, slightly decreased by 3.3%, from RMB458 million in 2013 to RMB443 million in 2014. Our freight tonne-kilometers yield for regional routes decreased from RMB3.71 per tonne-kilometer in 2013 to RMB3.47 per tonne-kilometer in 2014.

International cargo and mail traffic revenues, which accounted for 78.4% of our total cargo and mail traffic revenues in 2014, decreased by 2.6%, from RMB5,896 million in 2013 to RMB5,743 million in 2014, due to decreased demand in the international cargo and mail freight market as a result of the general slowdown of the international freight market. Our prices for cargo and mail transportation on international routes also decreased as our freight tonne-kilometers yield for international routes decreased from RMB1.56 per tonne-kilometer in 2013 to RMB1.55 per tonne-kilometer in 2014.

#### *Other revenues*

We also generated revenues from other services, including tour operations, airport ground services, cargo handling services and ticket handling services. These services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao International Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao International Airport and Pudong International Airport. Our total other revenues decreased by 1.5%, from RMB7,714 million in 2013 to RMB7,596 million in 2014.

#### *Operating Expenses*

The following chart sets forth a breakdown of our operating expenses for the years ended December 31, 2013 and 2014:

	Year Ended		2014 vs. 2013	
	December 31, 2013	December 31, 2014	Increase %	Increase (Decrease)
	(in millions of RMB)			
<b>Operating Expenses:</b>				
Aircraft fuel expenses	30,681	30,238	(443 )	(1.4 )
Takeoff and landing charges	9,190	9,440	250	2.7
Depreciation and amortization	8,226	9,183	957	11.6
Wages, salaries and benefits	13,454	11,270	(2,184)	(16.2 )
Aircraft maintenance	4,690	4,453	(237 )	(5.0 )
Impairment (charge)/reversal	186	12	(174 )	(93.5 )
Food and beverages	2,268	2,364	96	4.2
Aircraft operating lease rentals	4,605	4,502	(103 )	(2.2 )
Other operating lease rentals	679	637	(42 )	(6.2 )
Selling and marketing expenses	4,139	4,120	(19 )	(0.5 )
Civil aviation development fund	1,566	1,656	90	5.7
Ground services and other expenses	5,105	4,998	(107 )	(2.1 )
Indirect operating expenses	4,623	4,950	327	7.1
<b>Total Operating Expense</b>	<b>89,412</b>	<b>87,823</b>	<b>(1,589)</b>	<b>(1.8 )</b>





Our total operating expenses decreased by 1.8%, from RMB89,412 million in 2013 to RMB87,823 million in 2014 primarily due to a decrease in aircraft fuel costs, wages, salaries and benefits. Our total operating expenses as a percentage of our revenues increased from 101.3% in 2013 to 97.4% in 2014.

Aircraft fuel expenses decreased by 1.4%, from RMB30,681 million in 2013 to RMB30,238 million in 2014. The decrease was primarily due to the decrease in the average price of fuel in response to general market trends. In 2014, we consumed a total of approximately 4.8 million tonnes of aviation fuel, representing an increase of 4.3% compared to 2013. In 2014, the average price of fuel decreased by 4.7% compared to that of 2013. Aircraft fuel expenses accounted for 34.4% of our total operating expenses in 2014, as compared to 34.3% in 2013.

Take-off and landing charges, which accounted for 10.8% of our total operating expenses in 2014, increased by 2.7%, from RMB9,190 million in 2013 to RMB9,440 million in 2014, primarily due to an increase in the number of take-off and landings.

Depreciation and amortization increased by 11.6%, from RMB8,226 in 2013 to RMB9,183 million in 2014, primarily due to the addition of new aircraft and engines by us in 2014, resulting in a greater base number for depreciation and amortization.

Wages, salaries and benefits, which accounted for 12.8% of our total operating expenses in 2014, decreased by 16.2%, from RMB13,454 million in 2013 to RMB11,270 million in 2014, primarily due to the changes in our retirement benefits. Additional information regarding the changes in our retirement benefits is disclosed in Note 37 to the consolidated financial statements.

Aircraft maintenance expenses, which accounted for 5.1% of our total operating expenses in 2014, decreased by 5.0%, from RMB4,690 million in 2013 to RMB4,453 million in 2014, primarily due to the enhancement in our aircraft maintenance abilities and a decrease in the number of aircraft that underwent material repairs.

Food and beverage expenses increased by 4.2% from RMB2,268 million in 2013 to RMB2,364 million in 2014, primarily due to an increase in the number of passengers and scheduled flights.

Aircraft operating lease rentals decreased by 2.2%, from RMB4,605 million in 2013 to RMB4,502 million in 2014, primarily due to a decrease in the number of aircraft that we operate under operating leases.

Other operating lease rentals decreased by 6.2%, from RMB679 million in 2013 to RMB637 million in 2014, primarily due to a decrease in leasehold properties.

Selling and marketing expenses, which accounted for 4.7% of our total operating expenses in 2014, decreased by 0.5%, from RMB4,139 million in 2013 to RMB4,120 million in 2014, primarily due to decreased handling fees charged by ticketing agents.

The amount of civil aviation infrastructure levies payable to the CAAC increased by 5.7%, from RMB1,566 million in 2013 to RMB1,656 million in 2014, primarily due to an increase in our miles flown in 2014.

Ground services and other expenses decreased by 2.1%, from RMB5,105 million in 2013 to RMB4,998 million in 2014, primarily due to a decrease in corresponding expenses following a decrease in income generated from tour operations and ground services.

Indirect operating expenses increased by 7.1%, from RMB4,623 million in 2013 to RMB4,950 million in 2014, primarily attributable to an increase in expenses following the expansion of our fleet.

#### ***Fair Value Changes of Derivative Financial Instruments***

Changes in fair value of derivative financial instruments decreased from a gain of RMB18 million in 2013 to a gain of RMB11 million in 2014. The difference was mainly due to the decrease in gains arising from fair value movement of interest rate swaps contracts, which was resulted from a decrease in the notional amount of unsettled interest rate swaps contracts.

#### ***Other Operating Income and Gains***

Our other operating income and gains were primarily generated from co-operation routes income. The total amount of our other operating income and gains increased by 35.2% from RMB2,725 million in 2013 to RMB3,685 million in 2014, primarily due to an increase in income from co-operation routes 2014. Other co-operation income represented income from co-operation routes granted to us by the PRC government and local governments as well as other subsidies granted by various local municipalities and other parties to encourage us to operate certain routes to cities where these municipalities are located.



### *Net Finance Costs*

In 2014, our finance income was RMB88 million, representing a decrease from RMB2,125 million in 2013, primarily due to net exchange losses in 2014 as compared to net exchange gains in 2013. Finance costs amounted to RMB2,160 million, representing an increase of 39.4%, primarily due to an increase in interest expenses arising from borrowings and finance leases.

### *Profit Attributable to the Equity Holders of the Company*

As a result of the foregoing, the net profit attributable to the equity holders of the Company increased to RMB3,410 million in 2014, or 43.7%, as compared to a net profit of RMB2,373 million in 2013. The increase is mainly due to continuous improvement of our operating abilities and the decrease of jet fuel prices, as well as adjustments to the retirement benefit policies of our employees

### *Property, Plant and Equipment*

Our Company had approximately RMB109,439 million of property, plant and equipment as of December 31, 2014, including, among other assets, aircraft, engines and flight equipment, representing a 18.0% increase from RMB92,783 million in 2013.

## **B. Liquidity and Capital Resources**

We typically finance our working capital requirements through a combination of funds generated from operations, short-term bank loans and the issuance of corporate bonds. As a result, our liquidity could be materially and adversely affected to the extent there is a significant decrease in demand for our services or if there is any delay in obtaining bank loans.

As of December 31, 2013, 2014 and 2015, we had RMB1,995 million and RMB1,355 million and RMB9,080 million, respectively, in cash and cash equivalents; RMB50,600 million, RMB59,189 million and RMB66,712 million, respectively, in outstanding borrowings; and RMB383 million, RMB38 million and RMB35 million, respectively, in restricted bank deposits and short-term bank deposits. Our cash and cash equivalents primarily consist of cash on hand and deposits that are placed with banks and other financial institutions. We plan to use the remaining available cash

for other capital expenditures, including expenditures for aircraft, engines and related equipment, as well as for working capital and other day-to-day operating purposes.

In addition, our current liabilities exceeded our current assets by approximately RMB51,309 million. As a consequence, the directors of the Company ("Directors") have taken active steps to seek additional sources of financing to improve our liquidity position. As of December 31, 2015, we had total unutilized credit facilities of RMB55.17 billion from various banks. See the discussion below under "– Working Capital and Liabilities".

We believe that our current cash, cash equivalents, short-term and long-term borrowings and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions that we may decide to pursue.

In 2015, we generated a net cash inflow from operating activities of RMB24,325 million as a result of cash generated from operations of RMB25,535 million less income tax we paid in 2015. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB23,620 million and positive changes in working capital of RMB1,915 million. The operating profit before working capital changes of RMB23,620 million was a result of the profit before income tax of RMB5,667 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non-current assets of RMB10,710 million, (ii) net foreign exchange losses of RMB5,480 and (iii) interest expenses of RMB2,075 million. Positive changes in working capital mainly consisted of (i) trade and bills payable of RMB1,629 million and (ii) other long-term liabilities of RMB1,164 million, partly offset by prepayments and other receivables of RMB2,011 million.

In 2014, we generated a net cash inflow from operating activities of RMB12,296 million as a result of cash generated from operations of RMB12,767 million less income tax we paid in 2014. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB12,665 million and positive changes in working capital of RMB102 million. The operating profit before working capital changes of RMB12,665 million was a result of the profit before income tax of RMB4,113 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non-current assets of RMB9,056 million, (ii) interest expenses of RMB1,957 million. Positive changes in working capital mainly consisted of (i) sales in advance of carriage of RMB1,491 million and (ii) other payables and accrued expenses of RMB1,024 million, partly offset by prepayments and other receivables of RMB1,314 million.

In 2013, we generated a net cash inflow from operating activities of RMB10,806 million as a result of cash generated from operations of RMB11,120 million less income tax we paid in 2013. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB9,829 million and positive changes in working capital of RMB1,291 million. The operating profit before working capital changes of RMB9,829 million was a result of the profit before income tax of RMB2,217 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non-current assets of RMB8,117 million and (ii) interest expenses of RMB1,549 million, which was partly offset by net foreign exchange gains of RMB1,976 million. Positive changes in working capital mainly consisted of (i) other payables and accruals of RMB1,539 million and (ii) restricted bank deposits and short-term bank deposits of RMB1,343 million, partly offset by prepayments and other receivables of RMB2,028 million.

### **Cash Flows from Investing Activities**

In 2015, our net cash outflow from investing activities was RMB27,800 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of new aircraft of RMB24,772 million and (ii) additions of property, plant and equipment of RMB8,609 million. These cash outflows were partly offset by (i) proceeds from disposal of assets classified as held for sale of RMB4,227 million and (ii) proceeds from disposal of property, plant and equipment of RMB1,294 million.

In 2014, our net cash outflow from investing activities was RMB24,033 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of new aircraft of RMB20,067 million and (ii) additions of property, plant and equipment of RMB5,640 million. These cash outflows were partly offset by proceeds from disposal of property, plant and equipment of RMB1,623 million.

In 2013, our net cash outflow from investing activities was RMB17,028 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of new aircraft of RMB17,261 million and (ii) additions of property, plant and equipment of RMB1,286 million. These cash outflows were partly offset by (i) proceeds from disposal of short-term deposits of RMB1,492 million, and (ii) proceeds from disposal of property, plant and equipment of RMB556 million.

### **Cash Flows from Financing Activities**

In 2015, our net cash inflow from financing activities was RMB11,083 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB26,916 million, (ii) proceeds from draw down of long-term bank loans and other financing activities of RMB24,572 million, (iii) proceeds

from issuance of short-term debentures of and RMB21,500 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB34,767 million, (ii) repayments of long-term bank loans of RMB10,540 million, and (iii) repayments of short-term debentures of RMB10,000 million.

In 2014, our net cash inflow from financing activities was RMB11,112 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB33,863 million, (ii) proceeds from draw down of long-term bank loans and other financing activities of RMB16,971 million, (iii) proceeds from issuance of short-term debentures of RMB4,000 million and (iv) proceeds from issuance of long-term debentures and bonds of RMB3,300 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB27,810 million, (ii) repayments of long-term bank loans of RMB7,451 million, and (iii) repayments of short-term debentures of RMB4,000 million.

In 2013, our net cash inflow from financing activities was RMB5,730 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB15,635 million, (ii) proceeds from draw down of long-term bank loans and other financial activities of RMB8,958 million, (iii) proceeds from issuance of long-term debentures and bonds of RMB6,985 million and (iv) proceeds from issuance of short-term debentures of RMB4,000 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB15,823 million, (ii) repayments of long-term bank loans of RMB9,792 million, and (iii) repayments of short-term debentures of RMB4,000 million.

### **Working Capital and Liabilities**

We have, and in the future may continue to have, substantial debts. In addition, we generally operate with a working capital deficit. As of December 31, 2015, our current liabilities exceeded our current assets by RMB51,309 million. In comparison, our current liabilities exceeded our current assets by RMB42,887 million as of December 31, 2014. The increase in our current liabilities in 2015 was primarily due to the increase in the current portion of borrowings. The increase in our current assets in 2015 was primarily due to an increase in cash and cash equivalents. Short-term loans outstanding totaled RMB28,676 million and RMB 38,214 as of December 31, 2014 and 2015, respectively. Long-term outstanding bank loans totaled RMB30,513 million and RMB 28,498 million as of December 31, 2014 and 2015, respectively.

As of December 31, 2015, our long-term debt to equity ratio was 0.71. The interest expenses associated with these debts may impair our future profitability. We expect that cash from operations and bank borrowings will be sufficient to meet our operating cash flow requirements, although events that materially and adversely affect our operating results can also have a negative impact on liquidity.

Our consolidated interest-bearing borrowings as of December 31, 2014 and 2015 for the purpose of calculating the indebtedness of our Company, were as follows:

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2015</b>
	(RMB in millions)	
Secured	27,264	27,664
Unsecured	31,925	39,048
<b>Total</b>	<b>59,189</b>	<b>66,712</b>

The maturity profile of interest-bearing borrowings of our Company as of December 31, 2014 and 2015 was as follows:

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2015</b>
	(RMB in millions)	
Within one year	28,676	38,214
In the second year	8,801	10,306
In the third to fifth year inclusive	10,868	8,224
After the fifth year	10,844	9,968
<b>Total</b>	<b>59,189</b>	<b>66,712</b>

As of December 31, 2015, our interest rates relating to short-term borrowings ranged from 1.49% to 3.48%, while our fixed interest rates on our interest-bearing borrowings for long-term bank loans ranged from 5.75% to 5.90%. Our bank loans are denominated in Renminbi and U.S. dollars. As of December 31, 2015, our total bank loans denominated in Renminbi amounted to RMB29,769 million, while our total bank loans denominated in U.S. dollars amounted to US\$5,689 million. On March 6, 2014, our wholly-owned subsidiary EAO issued offshore CNY-denominated bonds in an amount of RMB2.5 billion at 4.8% due 2017, listed on the Hong Kong Stock Exchange. Our Company guaranteed the bond issue. On May 14, 2014, EAO issued offshore CNY-denominated bonds in an amount of CNY0.8 billion at 4.8% due 2017, listed on the Hong Kong Stock Exchange. Our Company guaranteed the bond issue. See Note 34 to the consolidated financial statements for more information on our borrowings.

We have entered into credit facility agreements to meet our future working capital needs. However, our ability to obtain financing may be affected by: (i) our results of operations, financial condition, cash flows and credit ratings; (ii) costs of financing in line with prevailing economic conditions and the status of the global financial markets; and (iii) our ability to obtain PRC government approvals required to access domestic or international financing or to undertake any project involving significant capital investment, which may include one or more approvals from the NDRC, SAFE, MOFCOM and/or the CSRC depending on the circumstances. If we are unable to obtain financing, for



whatever reason, for a significant portion of our capital requirements, our ability to acquire new aircraft and to expand our operations may be materially and adversely affected.

### **Capital Expenditures**

As of December 31, 2015, according to the relevant agreements, we expect our capital expenditures for aircraft, engines and related equipment to be in aggregate approximately RMB106,666 million, including approximately RMB23,781 million in 2016 and approximately RMB26,642 million in 2017, in each case subject to contractually stipulated increases or any increase relating to inflation. We plan to finance our other capital commitments through a combination of funds generated from operations, existing credit facilities, bank loans, leasing arrangements and other external financing arrangements.

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

None.

### **D. Trend Information**

Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2015 to December 31, 2015 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

### **E. Off-balance Sheet Arrangements**

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

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

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

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

## F. Tabular Disclosure of Contractual Obligations

### Contractual Obligations and Commercial Commitments

The following tables set forth selected information regarding our outstanding contractual and commercial commitments as of December 31, 2015:

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>More Than 5 Years</b>
Long-Term Debt <sup>(1)</sup>	43,675	15,177	10,306	8,224	9,968
Capital Leases <sup>(2)</sup>	52,399	6,109	5,942	16,679	23,669
Operating Leases <sup>(3)</sup>	26,665	4,607	3,895	8,372	9,791
Unconditional Purchase Obligations <sup>(4)</sup>	106,666	23,781	26,642	44,372	11,871
Other Long-term Obligations <sup>(5)(6)</sup>	3,990	-	-	-	-
Post-retirement Benefit Obligations <sup>(5)</sup>	2,569	-	-	-	-
Deferred Tax Liabilities <sup>(5)</sup>	8	-	-	-	-
Short-term Bank Loans <sup>(7)</sup>	23,037	23,037	-	-	-
Interest Obligations	8,233	2,018	1,518	3,031	1,666
Under Finance Leases	6,429	1,268	1,159	2,504	1,498
Under Bank Loans	1,804	750	359	527	168
Fixed Rate	202	142	15	33	12
Variable Rate <sup>(8)</sup>	1,602	608	344	494	156
<b>Total</b>	<b>267,242</b>	<b>74,729</b>	<b>48,303</b>	<b>80,678</b>	<b>56,965</b>

(1) Excludes interest.

(2) Primarily comprise amounts paid/due under leases for the acquisition of aircraft.

(3) Primarily comprise amounts paid/due under leases for the rental of aircraft, engines and flight equipment.

(4) Primarily comprise capital expenditures.

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

(6) Other long-term obligations include long-term duties and levies payable, and fair value of unredeemed points awarded under our Group's frequent flyer programs.

(7) Short-term bank loans are generally repayable within one year. As of December 31, 2015, the weighted average interest rate of our short-term bank loans was 2.57% per annum (2014: 2.42%).

For our variable rate loans, interest rates range from six month LIBOR + 0.50% to six months LIBOR + 3.75%.

(8) Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2015. A 25 basis points increase in the interest rate would increase interest expenses by RMB148 million.

Other Commercial Commitments/Credit Facilities	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(RMB in millions)				
Lines of Credit	55,171	38,348	16,238	-	585
Standby Letters of Credit	-	-	-	-	-
Guarantees	-	-	-	-	-
<b>Total</b>	<b>55,171</b>	<b>38,348</b>	<b>16,238</b>	<b>-</b>	<b>585</b>

## **Taxation**

We had carried forward tax losses of approximately RMB2,488 million as of December 31, 2015, which can be used to set off against future taxable income between 2016 and 2020.

Prior to 2008, the Company and certain of its subsidiaries located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong District, Shanghai. Under China's EIT Law, which was approved by the National People's Congress on March 16, 2007 and became effective from January 1, 2008, the Company and its Pudong subsidiaries are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to 25% over the next five years from 2008. For the year ended December 31, 2015, the corporate income tax rate applicable to the Company and these subsidiaries was 25%. China Eastern Yunnan Airlines Co., Ltd. ("CEA Yunnan"), a subsidiary of the Group, obtained approval from tax authorities and has been entitled to a reduced corporate income tax rate of 15% from January 1, 2011. The Company's branches located in Sichuan, Gansu and Xibei also obtained approval from respective tax authorities and are entitled to a reduced corporate income tax rate of 15%. The Company and subsidiaries except for CEA Yunnan, the Company's branches located in Sichuan, Gansu and Xibei and those incorporated in Hong Kong, which are subject to Hong Kong profits tax rate of 16.5% , are generally subject to the PRC standard corporate income tax rate of 25% .

## **Inflation**

In recent years, China has been experiencing increasing levels of inflation. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 2.6% in 2012, 2.6% in 2013, 2.1% in 2014, and 1.4% in 2015. Although neither inflation nor deflation in the past had any material adverse impact on our results of operations, we cannot assure you that the deflation or inflation of the Chinese economy in the future would not materially and adversely affect our financial condition and results of operations.

## **New Pronouncements**

For a detailed discussion of new accounting pronouncements, please see Note 2 to our audited consolidated financial statements.

## **G.Safe Harbor**

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

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

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

<b>Name <sup>(1)</sup></b>	<b>Age</b>	<b>Shares Owned</b>	<b>Position</b>
Liu Shaoyong	57	-	Chairman of the Board of Directors
Ma Xulun	51	-	President and Vice Chairman
Xu Zhao	47	-	Director
Gu Jiadan	59	-	Director
Li Yangmin	52	3,960 A Shares	Director and Vice President
Tang Bing	49	-	Director and Vice President
Tian Liuwen	56	-	Director
Ji Weidong	58	-	Independent Non-executive Director
Li Ruoshan	67	-	Independent Non-executive Director
Ma Weihua	67	-	Independent Non-executive Director
Shao Ruiqing	58	-	Independent Non-executive Director
Yu Faming	61	-	Chairman of the Supervisory Committee
Xi Sheng	53	-	Supervisor
Ba Shengji	58	-	Supervisor
Feng Jinxiong	53	-	Supervisor
Xu Haihua	54	-	Supervisor
Wu Yongliang	52	3,696 A Shares	Vice President and Chief Financial Officer
Feng Liang	51	-	Vice President
Sun Youwen	55	62,731 A Shares	Vice President
Wang Jian	42	-	Board Secretary and Joint Company Secretary
Sandy Ke-Yaw Liu	67	-	Independent Non-executive Director

Yan Taisheng

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Supervisor

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*Note:*

(1) Mr. Sandy Ke-Yaw Liu, due to expiry of term of office, ceased to be an independent non-executive director of the Company with effect from June 16, 2015 in accordance with the relevant requirements. Mr. Yan Taisheng, due to his retirement, ceased to be a supervisor the Company with effect from June 16, 2015 in accordance with the relevant requirements. Mr. Tian Liuwen was appointed as a director of the Company, and Mr. Shao Ruiqing was appointed as an independent non-executive director of the Company and elected as a member of the Nomination and Remuneration Committee and the Aviation Safety and Environment Committee, each with effect from June 16, 2015.

## **Directors**

**Mr. Liu Shaoyong**, aged 57, is currently the Chairman of the Company and president 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. from November 2004 to December 2008. In December 2008, Mr. Liu was appointed as president of CEA Holding, and became the Chairman of the Company since February 2009. Mr. Liu is also currently the board member of International Air Transport Association and the board member of Association for Relations Across the Taiwan Straits. Mr. Liu graduated from the China Civil Aviation Flight College and obtained an Executive Master of Business Administration degree from Tsinghua University. Mr. Liu holds the title of commanding pilot.

**Mr. Ma Xulun**, aged 51, 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 of Air China International Corporation Limited. In 2002, after the restructuring of civil aviation industry he was appointed as vice president of general affairs of Air China International Corporation Limited. Mr. Ma served as president and deputy party secretary of Air China International Corporation Limited 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 PRC certified accountant.

**Mr. Xu Zhao**, aged 47, 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. 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**, aged 59, 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. From May 2005 to August 2009, he was a party member and vice president of Shanghai Airlines Co., Ltd. From August 2009 to January 2010, he was the acting president of Shanghai Airlines Co., Ltd. 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 as a Director of the Company with effect from June 2012. Mr. Gu holds a master's degree and is a senior economist.

**Mr. Li Yangmin**, aged 52, 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 of Northwest Company, general manager of the aircraft maintenance base of China Eastern Air Northwest Branch Company and vice president of China Eastern Air Northwest Branch Company. Since October 2005, he has also been a vice president of the 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. He served as the chairman of China Cargo Airlines Co., Ltd. from February 2012 to January 2013. Mr. Li also served as a director of Travelsky Technology Limited. Mr. Li graduated from the Civil Aviation University of China and Northwestern Polytechnical University with master's degrees and obtained an Executive Master of Business Administration degree from Fudan University. He is also a qualified professor-level senior engineer.



**Mr. Tang Bing**, aged 49, 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 MTU Maintenance Zhuhai Co., Ltd., office director of China Southern Airlines Holding Company and president of Chongqing Airlines Company Limited. From December 2007 to May 2009, he served as chief engineer and general manager of the Aircraft Engineering Department of China Southern Airlines Company Limited. 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 the chairman of Shanghai Airlines since January 2012 and 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 degree from the Administration Institute of Sun Yat-sen University, an Executive Master of Business Administration degree from the School of Economics and Management of Tsinghua University and a doctoral degree in national economics from the Graduate School of Chinese Academy of Social Sciences. He is also a qualified senior engineer.

**Mr. Tian Liuwen**, aged 56, is currently a Director, vice president of the Company and a party member of CEA Holding. Mr. Tian served as manager of the Beijing Sales Department under the Marketing and Sales Division of China General Aviation Corporation. He was also the head of the general manager office and chairman of the labour union and deputy general manager of the Shanxi Branch of the 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 the president of the Beijing Base of the Company. He served as general manager of China Eastern Airlines Jiangsu Co., from January 2008 to December 2011. Since December 2011, he has been the vice president of the Company. From December 2011 to June 2013, he was the president of Shanghai Airlines. Since June 2014, he has been a party member of CEA Holding. Since June 2015, he has been a Director of the Company. He obtained an Executive Master of Business Administration degree from Nanjing University and is qualified as senior economist.

**Mr. Ji Weidong**, aged 58, 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 graduated from the Department of Law of Peking University. Mr. Ji completed his master's 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. Li Ruoshan**, aged 67, 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 and a consultant professional of the Committee for

Accounting Standards of the Ministry of Finance. In 2001, Mr. Li was awarded the “The Best 10 Independent Directors in China” by the Shanghai Stock Exchange. Mr. Li graduated from Xiamen University, majoring in accounting and obtained the first doctoral degree in auditing in China. He further studied abroad in Belgium and the Massachusetts Institute of Technology in the United States.

**Mr. Ma Weihua**, aged 67, is currently an independent non-executive Director of the Company. Mr. Ma is currently a member of the Twelfth National Committee of the Chinese People’s Political Consultative Conference, the director-general of Council of National Fund for Technology Transfer and Commercialization, a member of the Standing Council of China Society for Finance and Banking. Mr. Ma is currently an independent director of China World Trade Center Co., Ltd. and Guotai Junan Securities Co., Ltd. and the Chairman of the Board of Supervisors of Taikang Life Insurance Co., Ltd. Mr. Ma served as an executive director, president and chief executive officer of China Merchants Bank Co., Ltd, the chairman of Wing Lung Bank Limited in Hong Kong, the chairman of CIGNA & CMC Life Insurance Company Limited and the chairman of China Merchants Fund Management Co., Ltd. Mr. Ma obtained a doctorate degree in economics and is an adjunct professor at several higher educational institutions including Peking University and Tsinghua University.

**Mr. Shao Ruiqing**, aged 58, currently serves as an independent non-executive Director of the Company. Mr. Shao currently serves as a professor in accounting and a mentor to doctoral students at the Shanghai Lixin University of Commerce. He served as the deputy dean and dean of the School of Economics and Management of Shanghai Maritime University, the deputy dean of Shanghai Lixin University of Commerce. and the independent director of China Shipping Haisheng Co.,Ltd., Shenzhen Guangju Energy Co., Ltd., Jianmin Pharmaceutical Groups Co., Ltd. and SAIC Motor Corp Ltd. Mr. Shao served as an independent non-executive Director of China Eastern Airlines Corporation Limited from June 2010 to April 2014. Mr. Shao was awarded the special allowance by the State Council of the PRC in 1995. He is currently a consultative committee member of the Ministry of Transport, as an expert in finance and accounting. Mr. Shao graduated from Shanghai Maritime University, Shanghai University of Finance and Economics and Tongji University with a bachelor’s degree in economics, and master’s and doctoral degrees in management. Mr. Shao has spent two and a half years studying and being senior visiting scholar in the U.K. and Australia.

## Supervisory Committee

As required by the PRC Company Law and our Articles of Association, our Company has a supervisory committee (the "Supervisory Committee"), whose primary duty is the supervision of our senior management, including our Board of Directors, managers and senior officers. Supervisory Committee consists of five supervisors.

**Mr. Yu Faming**, aged 61, is currently the chairman of the Supervisory Committee of the Company, and a party member 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 and Human Resources 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 and Social Security of the PRC and head of the Training and Employment Department of the Ministry of Labour and Social Security 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. From May 2011 to July 2015, he has been party member and head of party disciplinary inspection group of CEA Holding. He has been a party member of CEA Holding since July 2015. 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**, aged 53, 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. He was also the head of the fixed assets investment audit department of the National Audit Office of the PRC, and the party secretary and a special commissioner of the Harbin office of the National Audit Office of the PRC. He served as the head of the personnel and education department of the National Audit Office of the PRC from January 2007 to September 2009. He was the head of the audit department of CEA Holding from September 2009 to November 2012. Mr. Xi has served as the chief auditor of CEA Holding since September 2009. Since June 2012, he has been a supervisor of the Company. Mr. Xi is also the council member of China Institute of Internal Audit, a member of International Institute of Internal Auditors, a committee member of international relations committee of the institute and committee of executive committee of Asia Internal Audit Organisation. Mr. Xi graduated from Jiangxi University of Finance and Economics with undergraduate education background. He is a senior auditor, a Chinese Certified Public Accountant (CPA) and an International Certified Internal Auditor (CIA).

**Mr. Ba Shengji**, aged 58, 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. He was the chief officer of the auditing office of the Company from March 1997 to October 1997, chief officer of the auditing office of CEA Holding from October 1997 to July 2000, head of the audit department of CEA Holding from July 2000 to January 2003, chief officer of disciplinary committee office, head of supervision

department and head of audit department of CEA Holding from January 2003 to May 2003. He served as the deputy head of party disciplinary inspection group, chief officer of disciplinary committee office, head of supervision department and head of the audit department of CEA Holding from May 2003 to November 2006. He was the secretary of the disciplinary committee of the 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. Since June 2013, he has been a supervisor of the Company. 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**, aged 53, is currently a Supervisor and general manager of the Audit Department of the Company and a head of the audit department of CEA Holding. Mr. Feng joined the civil aviation industry in 1982, and served as deputy head and head of the Planning Department of the 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. He has been the head of the audit department of CEA Holding from May 2014. Mr. Feng graduated from the Civil Aviation University of China and the Graduate School of the Chinese Academy of Social Sciences, holding a master's degree.

**Mr. Xu Haihua**, aged 54, is currently a supervisor, vice chairman of the labour union and head of the general office of the labour union of the Company. Mr. Xu joined the civil aviation industry in 1982. He served as the deputy secretary of the Party committee and secretary of the disciplinary committee of China Eastern Air Catering Investment Co., Ltd. from April 2005 to March 2010. He served as the deputy secretary of the Party committee, secretary of the disciplinary committee and chairman of the labour union of Eastern Airlines Tourism Investment (Group) Co., Ltd. from April 2010 to September 2012. He has been the head of the general office of the labour union of the Company from October 2012 to August 2014. He has been the vice chairman of the labour union of the Company and the Director of the General Office of the labour union since September 2014. He has been a supervisor of the Company since June 2015. Mr. Xu graduated from Macau International Public University majoring in business administration and obtained postgraduate qualification.

## Senior Management

**Mr. Wu Yongliang**, aged 52, 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 and chief financial officer 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. Mr. Wu was awarded the postgraduate qualification and is a certified accountant.

**Mr. Feng Liang**, aged 51, is currently a vice president and the chief engineer of the Company. Mr. Feng joined the civil aviation industry in 1986 and worked in the 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 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 from December 2012 to December 2014 and the vice president of the Company since August 2013. Mr. Feng graduated from Civil Aviation University of China, majored in aircraft electrical equipment maintenance and obtained an MBA degree from Shanghai Jiao Tong University.

**Mr. Sun Youwen**, aged 55, is currently the vice president 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. 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 was appointed as the chief pilot of the Company and the general manager of the Shanghai flight division of the Company from April 2012 to March 2014 and has served as the vice president and chief pilot of the Company from March 2014 to July 2014. He has been a vice president of the Company since July 2014. Mr. Sun graduated from the Flight College of Civil Aviation Flight University of China, majored in aircraft driving and obtained an Executive Master of Business Administration degree from the Institute of Management of Fudan University.

**Mr. Wang Jian**, aged 42, is currently the Board secretary and the Head of the Board secretariat 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. He served as the head of the Board secretariat of the Company and a representative of the Company's Securities affairs from May 2009 to April 2012. He was appointed as the Board secretary and the head of the Board secretariat of the Company in April 2012. Mr. Wang graduated from Shanghai Jiao Tong University and has an Master of Business Administration postgraduate degree

from East China University of Science and Technology and an Executive Master of Business Administration degree from Tsinghua University as well as a qualification certificate for board secretaries of listed companies issued by the Shanghai Stock Exchange.

### **Retired Director and Supervisor During the Reporting Period**

**Mr. Sandy Ke-Yaw Liu**, aged 67, was an independent non-executive Director of the Company during the reporting period. He joined the civil aviation industry in Taiwan in 1969 and served in China Airlines in various capacities, including director of corporate planning, director of marketing planning in its Corporate Office in Taiwan, 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 Taiwan Mandarin Airlines, Taiwan Far Eastern Air Transport, Taiwan China Pacific Catering Service and Taiwan Taoyuan International Airport Service Company, as well as chairman of Taiwan Air Cargo Terminal. He served as the chief operating officer for the Asia region of America Expeditors International Logistics Company. Mr. Liu graduated from Taiwan Shih Hsin University and attended advanced study programmes at Stanford University in 1990 and 1993.

**Mr. Yan Taisheng**, aged 62, was a Supervisor of the Company during the reporting period. 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 Shanghai Civil Aviation Dong Da Industry Company and deputy head and head of the general office of the labour union of the Company. He was the vice chairman of the labour union of the Company from 2005 to May 2014, and retired on 1 June 2014. Mr. Yan graduated from East China Normal University.

### **B. Compensation**

The aggregate amount of cash compensation paid by us to our Directors, supervisors and the senior management during 2015 for services performed as Directors, supervisors and officers or employees of our Company was approximately RMB6,205,000. In addition, Directors and supervisors who are also officers or employees of our Company receive certain other in-kind benefits which are provided to all of our employees.

Details of the emoluments paid to our Directors, supervisors and senior management for the year 2015 are as follows:

<b>Name and Principal Position</b>	<b>Total</b>
	RMB'000
<b>Directors</b>	
Liu Shaoyong*	-
Ma Xulun	401
Xu Zhao*	-
Gu Jiadan*	-
Li Yangmin	365
Tang Bing	358
Tian Liuwen***	419
<b>Independent non-executive Directors</b>	
Sandy Ke-Yaw Liu**	72
Ji Weidong****	-
Shao Ruiqing***	60
Li Ruoshan	120
Ma Weihua	120
<b>Supervisors</b>	
Yu Faming*	-
Xi Sheng*	-
Xu Haihua***	298
Feng Jinxiong	610
Ba Shengji*	-
<b>Senior Management</b>	
Wu Yongliang	697
Feng Liang	723
Sun Youwen	1,283
Wang Jian	679
<b>Total</b>	<b>6,205</b>

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

\*\*Mr. Liu Keya retired during the year ended December 31, 2015.

\*\*\* These Directors and supervisors of our Company were newly appointed during the year ended December 31, 2015.

\*\*\*\* Mr. Ji Weidong has filed his resignation during the year ended December 31, 2015 but will fulfil his responsibility until new Director being appointed by the Board.

During the year ended December 31, 2015, no Directors or supervisors waived their compensation.

### **C. Board Practices**

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

<b>Name</b>	<b>Position</b>	<b>Held Position Since</b>	<b>Expiration of Term</b>
Liu Shaoyong	Chairman of the Board of Directors	June 26, 2013	June 30, 2016
Ma Xulun	Vice Chairman	June 26, 2013	June 30, 2016
	President	June 26, 2013	-



<b>Name <sup>(1)</sup></b>	<b>Position</b>	<b>Held Position Since</b>	<b>Expiration of Term</b>
Xu Zhao	Director	June 26, 2013	June 30, 2016
Gu Jiadan	Director	June 26, 2013	June 30, 2016
Li Yangmin	Director	June 26, 2013	June 30, 2016
Tang Bing	Director	June 26, 2013	June 30, 2016
	Director	June 16, 2015	June 30, 2016
Tian Liuwen			
	Vice President	June 26, 2013	-
Ji Weidong	Independent non-executive Director	June 26, 2013	June 30, 2016
Li Ruoshan	Independent non-executive Director	June 26, 2013	June 30, 2016
Ma Weihua	Independent non-executive Director	October 29, 2013	June 30, 2016
Shao Ruiqing	Independent non-executive Director	June 16, 2015	June 30, 2016
Yu Faming	Chairman of the Supervisory Committee	June 26, 2013	June 30, 2016
Xi Sheng	Supervisor	June 26, 2013	June 30, 2016
Ba Shengji	Supervisor	June 26, 2013	June 30, 2016
Feng Jinxiong	Supervisor	June 26, 2013	June 30, 2016
Xu Haihua	Supervisor	June 16, 2015	June 30, 2016
Wu Yongliang	Vice President	June 26, 2013	June 30, 2016
	Chief Financial Officer	June 26, 2013	June 30, 2016
Feng Liang	Vice President	August 27, 2013	June 30, 2016
Sun Youwen	Vice President	March 24, 2014	June 30, 2016
Wang Jian	Board Secretary and Joint Company Secretary	June 26, 2013	June 30, 2016
Ngai Wai Fung	Joint Company Secretary	June 26, 2013	June 30, 2016

*Note:*

(1) Mr. Tian Liuwen was elected as a director of the Company, and Mr. Shao Ruiqing was elected as an independent non-executive director of the Company and elected as a member of the Nomination and Remuneration Committee and the Aviation Safety and Environment Committee, each with effect from June 16, 2015. Mr. Xu Haihua was elected as an employee representative supervisor of the Company with effect from June 16, 2015.

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

**Audit and Risk Management Committee**

Our Board of Directors established the audit committee in August 2000 in accordance with the listing rules of the Hong Kong Stock Exchange. Our audit and risk management committee comprises Mr. Li Ruoshan, Mr. Ji Weidong

and Mr. Xu Zhao as the members of the Audit and Risk Management Committee and Mr. Li Ruoshan was appointed as the chairman of the Audit and Risk Management Committee. Mr. Li Ruoshan and Mr. Ji Weidong are independent non-executive directors. Mr. Xu Zhao, although as a Director, is not an affiliate as defined under Rule 10A-3, since he (i) is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of China Eastern Airlines Inc.; and (ii) is not an executive officer of either China Eastern Airlines Inc. or any of its subsidiaries and does not receive any compensation from either China Eastern Airlines Inc. or any of its subsidiaries. Therefore, Mr. Xu Zhao falls into the safe harbor created by paragraph(e)(1)(ii)(A) under Rule 10A-3 and shall be deemed not to be in "control" for purposes of the definition of "affiliate" under Rule 10A-3. Our audit and risk management committee satisfies the requirements of Rule 10A-3 of the Exchange Act and NYSE Rule 303A.06 relating to audit committees, including the requirements relating to independence of the audit committee members.

The audit and risk management committee is authorized to, among other things, examine our internal control, internal audit and risk management systems, review auditing procedures and financial reports with our auditors, evaluate the overall risk management and corporate governance of our Company and prepare relevant recommendations to our Board of Directors. Subject to the approval of the shareholders' meeting, the audit and risk management committee of our Company is also directly responsible for the appointment, compensation, retention and oversight of our external auditors, including resolving disagreements between management and the auditor regarding financial reporting. The external auditors report directly to the audit and risk management committee. The audit and risk management committee holds at least three meetings each year. The audit and risk management committee has established procedures for the receipt, retention and treatment of complaints received by our Company regarding accounting, internal controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The audit and risk management committee has the authority to engage independent counsel and other advisors, as it determines necessary, to carry out its duties. Our Company provides appropriate funding, as determined by the audit and risk management committee, for payment of compensation to the external auditors, advisors employed by the audit committee, if any, and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties. The audit and risk management committee held eight meetings in 2015.

### **Nominations and Remuneration Committee**

On June 29, 2007, the fifth session of the Board of the Company held the first meeting for 2007 and initially appointed Mr. Zhou Ruijin, Mr. Luo Chaogeng and Mr. Wu Baiwang as the remuneration and appraisal committee of the Company (the "Remuneration and Appraisal Committee"), and Mr. Zhou Ruijin was elected as the chairman of Remuneration and Appraisal Committee. On March 19, 2010, the Board of the Company passed a resolution to merge the Nominations Committee of our Company and Remuneration and Appraisal Committee to form the Nominations and Remuneration Committee. On March 19, 2010, the Board approved the appointment of Mr. Liu Shaoyong, Mr. Sandy Ke-Yaw Liu and Mr. Ji Weidong as the members of the Nominations and Remuneration Committee of the fifth session of the Board. Mr. Liu Shaoyong was elected as the chairman of the Nominations and Remuneration Committee. On April 27, 2012, we amended the Detailed Working Rules for the Nominations and Remuneration Committee, with retroactive effect from April 1, 2012. For remuneration related matters considered and approved by the Nominations and Remuneration Committee, duties of the Chairman shall be performed by an independent non-executive director from among the members of the Nominations and Remuneration Committee. See the announcement furnished to the SEC on Form 6-K dated April 27, 2012. Our Nominations and Remuneration Committee comprises three members: Mr. Liu Shaoyong, the Chairman, Mr. Ma Weihua and Mr. Shao Ruiqing, both of whom are independent non-executive directors.



The Nominations and Remuneration committee is authorized to make recommendations to our Board of Directors 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, determine standards and procedures for the nomination of Directors and senior management of the Company, examine the remuneration policies of Directors and senior management of the Company, review the performance of our Directors and senior management as well as determine their annual compensation level. The Nominations and Remuneration Committee submits to our Board of Directors or shareholders' meeting for approval compensation plans and oversee the implementation of approved compensation plans. The Nominations and Remuneration Committee may consult financial, legal or other outside professional firms in carrying out its duties. Prior to the establishment of the Nominations and Remuneration Committee, Remuneration and Appraisal Committee did not hold any meetings in 2009. Under the guidance of Remuneration and Appraisal Committee, we renewed liability insurance for our Directors, supervisors and senior management in 2015. The Nominations and Remuneration Committee held four meetings in 2015.

We follow our home country practice in relation to the composition of our Nominations and Remuneration Committee in reliance on the exemption provided under NYSE Corporate Governance Rule 303A.00 available to foreign private issuers. Our home country practice does not require us to establish a remuneration committee composed entirely of independent directors.

### **Planning and Development Committee**

The Planning and Development Committee comprises three members: Mr. Li Yangmin and Mr. Tang Bing both of whom are Directors, and Mr. Ji Weidong, an independent non-executive director. Mr. Li Yangmin is the chairman of the committee.

The Planning and Development Committee, a specialized committee under our Board of Directors, is responsible for studying, considering, and developing plans and making recommendations with regard to the long-term development plans and material investment decisions of the Company. The members of the committee also oversee the implementation of such plans. The Planning and Development Committee held nine meetings in 2015.

### **Aviation Safety and Environment Committee**

The Aviation Safety and Environment Committee comprises Mr. Ma Xulun and Mr. Li Yangmin, both of whom are Directors, and Mr. Shao Ruiqing, an independent non-executive director. Mr. Ma Xulun serves as the chairman of the committee.

The Aviation Safety and Environment Committee, a specialized committee under the Board of Directors, is responsible for consistent implementation of relevant laws or regulations regarding national aviation safety and environmental protection, examining and overseeing the aviation safety management of the Company, studying, considering and making recommendations with regard to aviation safety duty plans and significant issues resulting from related safety duties as well as implementing such safety duty plans. In addition, the Aviation Safety and Environment Committee performs studies, and makes recommendations on significant environmental protection issues, including carbon emissions on our domestic and international aviation routes and carbon emission programs, and overseeing their implementation. The Aviation Safety and Environment Committee held two meeting in 2015.

#### D. Employees

Our employees are members of a labor association which represents employees with respect to labor disputes and certain other employee matters. We believe that we maintain good relations with our employees and with their labor association.

The table below sets forth the number of our employees as of December 31, 2013, 2014 and 2015, respectively:

	<b>As of December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Pilots	5,841	6,502	6,386
Flight attendants and other aircrew staff	11,201	12,203	13,225
Maintenance personnel	10,933	10,542	10,890
Sales and marketing	3,573	3,892	3,980
Operation control	2,097	2,004	1,983
Information technology	645	670	707
Management	4,090	4,072	4,125
Ground Services and others	30,494	30,261	29,737
<b>Total</b>	<b>68,874</b>	<b>70,146</b>	<b>71,033</b>

In 2015, we organized 58 sessions of multi-tier training for a total of 3,549 participants, and activated the "Sailing Program", a training program for new management trainees incorporating closed-door training with seminars, experiential and inspiring teaching with 220 participants. In 2015, we further improved our cabin crew training system by launching MPL (Multi-Crew Pilots Licence) and ATPL (Air Transport Pilots Licence) programs as well as optimizing crew resource management (CRM) and threat and error management (TEM) capabilities.

We outsourced some of our IT services in 2015. See Note 9 and Note 37 to our audited consolidated financial statements for changes in our retirement benefits.

## **E. Share Ownership**

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

In 2012, we implemented an H shares appreciation rights scheme, under which H shares appreciation rights were granted to the Directors and senior management on November 30, 2012 at an exercise price of HK\$2.67. The H share appreciation rights granted under this scheme are 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 instalments within three years after the expiration of the lock-up period. For details, please refer to our announcements in the 6-K filed with the SEC dated August 29, 2012, October 19, 2012, November 9, 2012 and November 30, 2012.

There was no granting or exercise of rights under the H shares appreciation rights of our Company during 2013. The first tranche of H shares appreciation rights, amounting to one third of the total H shares appreciation rights of our Company, was originally planned to be exercised on December 1, 2014. However, as our Company did not satisfy the exercising conditions in 2013, such tranche expired automatically.

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders**

The following table sets forth certain information regarding ownership of our capital stock as of December 31, 2015 by all persons who were known to us to be the beneficial owners of 5% or more of our capital stock:

<b>Title of Class</b>	<b>Identity of Person or Group</b>	<b>Amount Owned</b>	<b>Percent of Class (%)</b>	<b>Percent of Total Shares (%)</b>
Domestic A Shares	CEA Holding <sup>(1)</sup>	5,530,240,000	65.21	42.09
H Shares	CEA Holding <sup>(2)</sup>	2,626,240,000	56.37	19.99
H Shares	HKSCC Nominees Limited <sup>(3)</sup>	4,182,669,289	89.77	31.83
H Shares	Delta Air Lines <sup>(4)</sup>	465,910,000	10	3.55

*Notes:*

Based on the information available to the Directors (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as they are aware of, as of December 31, 2015:

(1) Among such A shares, 5,072,922,927 A shares were held directly by CEA Holding; and 457,317,073 A shares were held directly by CES Finance, which in turn were entirely held by CEA Holding.

(2) Those H shares were held by CES Global in the capacity of beneficial owner, which in turn were entirely held by CEA Holding.

(3) Among the 4,182,669,289 H shares held by HKSCC Nominees Limited, 2,626,240,000 shares (representing approximately 56.37% of the Group's then total issued H shares) were held by CES Global in the capacity of beneficial owner, which in turn were entirely held by CEA Holding.

(4) Those H shares were held by Delta Air Lines in the capacity of beneficial owner, and represented approximately 10.00% of the Group's then total issued H shares

As of December 31, 2015, CEA Holding directly or indirectly held 62.08% of our issued and outstanding capital stock, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

As of December 31, 2015, there were 4,659,100,000 H Shares issued and outstanding. As of December 31, 2015 and April 22, 2016, there were, respectively, 43 and 42 registered holders of American depositary receipts evidencing 1,953,543 and 2,120,583 ADSs, respectively. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

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

## **B. Related Party Transactions**

### *Relationship with CEA Holding and Associated Companies*

We enter into transactions from time to time with CEA Holding and its subsidiaries. For a description of such transactions, see Note 47 to our audited consolidated financial statements.

### *Related Business Transactions*

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

*Eastern Aviation Import and Export Corporation ("EAIEC"), a 55% owned subsidiary of CEA Holding*

### Import and Export Agency Services



On October 15, 2010, we entered into an agreement relating to the renewal of the existing import and export agency agreement with the with EAIEC on substantially the same terms, pursuant to which EAIEC and its subsidiaries will from time to time as its agent provide us with agency services for the import and export of aircraft and related raw materials, accessories, machinery and equipment required in our daily airlines operations and civil aviation business. The Import and Export Agency Renewal Agreement will be effective for a term of three years commencing from January 1, 2011 to December 31, 2013. On August 30, 2013, we entered into an agreement relating to the renewal of the existing import and export agency agreement with EAIEC on substantially the same terms, pursuant to which EAIEC 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. The Import and Export Agency Renewal Agreement is effective for a term of three years commencing from January 1, 2014 to December 31, 2016.

For the year ended December 31, 2015, we paid handling charges to EAIEC of approximately RMB119 million. We currently have certain balances with EAIEC, which are unsecured, interest-free and have no fixed term of repayment. See Note 47(b) to our audited consolidated financial statements for more details.

#### SA Import and Export Disposal

On July 28, 2010, Shanghai Airlines and Shanghai Airlines Tours entered into the SA Import and Export Share Transfer Agreement with EAIEC, pursuant to which Shanghai Airlines agreed to sell and EAIEC agreed to purchase the SA Import & Export Equity Interests, representing 89.7% of the entire issued share capital of SA Import & Export, and Shanghai Airlines Tours agreed to sell and EAIEC agreed to purchase the SA Import & Export Equity Interests II, representing 10.3% of the entire issued share capital of SA Import & Export.

*Eastern Aviation Advertising Service Co., Ltd. ("Eastern Aviation Advertising"), a 55% owned subsidiary of CEA Holding*

#### Advertising Service Agreement

On April 29, 2008, we entered into an agreement to renew our agreement entered into with Eastern Aviation Advertising dated May 12, 2005 regarding the provision of advertising services on substantially the same terms, for an additional term of three years commencing from July 1, 2008. On October 15, 2010, we entered into an agreement relating to the renewal of the existing Advertising Services Agreement with Eastern Aviation Advertising on substantially the same terms, pursuant to which Eastern Aviation Advertising and its subsidiaries will, from time to time, provide us with multi-media advertising services to promote its business and to organize promotional functions and campaigns to enhance its reputation in the civil aviation industry. The advertising services renewal agreement was effective for a term of three years, commencing from January 1, 2011 to December 31, 2013.



On August 30, 2013, we entered into an agreement relating to the renewal of the existing advertising services agreement with Eastern Aviation Advertising on substantially the same terms, pursuant to which Eastern Aviation Advertising and its subsidiaries will from time to time provide the Group with multi-media advertising services to promote its business and to organize promotional functions and campaigns to enhance its reputation in the civil aviation industry. The Advertising Services Renewal Agreement is effective for a term of three years commencing from January 1, 2014 to December 31, 2016. For the year ended December 31, 2015, we paid to Eastern Aviation Advertising approximately RMB24 million for advertising services.

#### Media Resources Agreement and Agreement with CES Media

On March 24, 2010, our Company and Eastern Aviation Advertising, which is 55% owned by CEA Holding, entered into an exclusive media resources agreement in which we granted Eastern Aviation Advertising the exclusive rights to operate the media resources of the Company. Pursuant to the agreement, Eastern Aviation Advertising will have the exclusive rights to: (i) distribute in-flight reading materials; (ii) operate aircraft cabin-based, in-flight and facilities advertising; and (iii) purchase in-flight entertainment programming from third parties or to self-produce such programming. The term of this agreement is for three years, commencing March 24, 2010, with the relevant terms to increase the fees payable to the Company in accordance with the expansion of the Company's aircraft fleet.

On October 15, 2010, we entered into an agreement relating to the renewal of the existing Media Resources Agreement with Eastern Aviation Advertising on substantially the same terms, pursuant to which we agreed to grant Eastern Aviation Advertising and its subsidiaries exclusive rights to operate our media resources. The Media Resources Renewal Agreement was effective for a term of three years, commencing from January 1, 2011 to December 31, 2013.

On September 27, 2013, we entered into an agreement with CES Media, pursuant to which we and certain of our subsidiaries agreed to transfer the exclusive rights to use certain media and advertising resources to CES Media and certain of its subsidiaries for a period of 15 years (from January 1, 2014 to December 31, 2028). CES Media is a subsidiary of and thus an associate of CEA Holding, which in turn is a controlling shareholder of the Company. For the year ended December 31, 2015, Eastern Aviation Advertising paid approximately RMB26 million for media royalty fee.

#### SA Media Disposal

On July 28, 2010, Shanghai Airlines and Shanghai Airlines Tours entered into the SA Media Share Transfer Agreement with Eastern Aviation Advertising, pursuant to which Shanghai Airlines agreed to sell and Eastern

Aviation Advertising agreed to purchase the SA Media Equity Interests I, representing 49% of the entire issued share capital of SA Media, and Shanghai Airlines Tours agreed to sell and Eastern Aviation Advertising agreed to purchase the SA Media Equity Interests II, representing 51% of the entire issued share capital of SA Media.

*China Eastern Air Catering Investment Co., Ltd. ("CEA Catering"), a 55% owned subsidiary of CEA Holding with the remaining by our Company*

### Catering Service Agreements

On May 12, 2005, our Company entered into certain catering service agreements with a number of subsidiaries of CEA Catering (including Shanghai Eastern Air Catering Co., Ltd.) regarding the provision of in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in our Company's daily airline operations and civil aviation business.

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

On October 15, 2010, the Company entered into an agreement relating to the renewal of the existing catering services agreement with the CEA Catering on substantially the same terms pursuant to which CEA Catering and the subsidiaries of CEA Catering will from time to time provide our 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 our Group. CEA Catering and its subsidiaries provide their services in accordance with the specifications and schedules as from time to time specified by the relevant member(s) of our Group to accommodate its operation needs. The catering services renewal agreement was effective for a term of three years, commencing from January 1, 2011 to December 31, 2013.

On August 30, 2013, we 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 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. The Catering Services Renewal Agreement was approved on the extraordinary general meeting of the Company held on 29 October 2013 and is effective for a term of three years, commencing from January 1, 2014 to December 31, 2016. For the year ended December 31, 2015, we paid approximately RMB1,058 million to the subsidiaries of CEA Catering for the supply of in-flight meals and other

services.

SA Catering Disposal

On July 28, 2010, Shanghai Airlines and SA Industry entered into the SA Catering Share Transfer Agreement with CEA Catering, pursuant to which Shanghai Airlines agreed to sell and CEA Catering agreed to purchase the SA Catering Equity Interests I, representing 50% of the entire issued share capital of SA Catering, and SA Industry agreed to sell and CEA Catering agreed to purchase the SA Catering Equity Interests II, representing 20% of the entire issued share capital of SA Catering.

*Eastern Air Group Finance Co., Ltd., ("Eastern Finance"), a 53.75% owned subsidiary of CEA Holding*

Our Company and Eastern Finance have entered into a financial services agreement dated May 12, 2005 to supersede our agreement with Eastern Finance dated January 8, 1997, regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references for a term of three years commencing from July 1, 2005. The agreement is subject to renewal. Pursuant to this agreement, we may place deposits with, and obtain loans from, Eastern Finance.

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

On April 29, 2008, we entered into a financial services agreement to renew our agreement dated May 12, 2005 regarding the provision of deposit services, loan and financing services and certain other financial services such as the provision of trust loans, financial guarantees and credit facilities and credit references, in substantially the same terms, for an additional term of three years commencing from July 1, 2008.

On October 15, 2010, the Company entered into an agreement relating to the renewal of the existing financial services agreement with Eastern Finance, pursuant to which Eastern Finance and its subsidiaries will from time to time provide us with a range of financial services including: (i) deposit services; (ii) loan and financing services; and (iii) other financial services such as the provision of trust loans, financial guarantees and credit references (the scope of "other financial services" is not limited and different services may be provided to us as and when they are needed). The financial services renewal agreement was effective for a term of three years commencing from January 1, 2011 to December 31, 2013.

On January 16, 2013, the Company entered into a supplemental agreement with Eastern Finance to further regulate the balances of our deposits and loans with Eastern Finance 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 October 15, 2010 remains unchanged. For details, please refer to our announcement in the 6-K filed with the SEC dated January 16, 2013. On August 30, 2013, we entered into an agreement relating to the renewal of the existing financial services agreement with Eastern Finance and CES Finance, pursuant to which Eastern Finance 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 Eastern Air Finance Entities; (ii) loan and financing services by Eastern Air Finance Entities; and (iii) other financial services such as: (a) the provision of trust loans, financial guarantees, credit references by Eastern Air Finance Entities; and (b) broker services for future products (e.g. crude oil, foreign exchange and national debt) by 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). The Financial Services Renewal Agreement was approved on the extraordinary general meeting of the Company held on October 29, 2013 and is effective for a term of three years commencing from January 1, 2014 to December 31, 2016.

As of December 31, 2015, we had deposits amounting to RMB729 million placed with Eastern Finance, which paid interest to us at 0.35% per annum. In addition, as of December 31, 2015, our Company did not have any loans from Eastern Finance. During the year ended December 31, 2015, the weighted average interest rate on the loan was 2.07% per annum for short-term loans and 5.54% for long-term loans.

*CEA Development Co. ("CEA Development"), a wholly-owned subsidiary of CEA Holding*

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

On October 15, 2010, the Company entered into an agreement relating to the consolidation and renewal of the existing maintenance services agreement and the existing automobile repairing services agreement on substantially the same terms with CEA Development pursuant to which CEA Development and its subsidiaries will from time to time provide certain services to the Company, including: (i) maintenance and repair services to the Company's automobiles that are used in ground services and daily operations; (ii) comprehensive services in relation to maintenance, repair and overhaul of aircraft and aviation equipment, and procurement of related equipment and materials required in the daily operations of our Group; (iii) various special vehicles and equipment for airline use, such as air stairs, freight cars, luggage trailers, garbage truck, food cars, freight containers, freight board; and (iv) aircraft on-board supplies. The maintenance and repair services renewal agreement was effective for a term of three years commencing from January 1, 2011 to December 31, 2013.

On August 30, 2013, we 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 (each a "CEA Development Entity" and collectively the "CEA Development Entities") will from time to time provide certain services to us, including: (a) maintenance and repair services to our 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 (the "Maintenance and Repair Services Renewal Agreement"). Maintenance and Repair Services Renewal Agreement is effective for a term of three years commencing from January 1, 2014 to December 31, 2016. For the year ended December 31, 2015, production and maintenance services fees paid to CEA Development Entity amounted were approximately RMB110 million.

*Great Wall Airlines, a non-wholly owned subsidiary of CEA Holding*

On December 20, 2010, China Cargo Airlines, a subsidiary of our Company, as purchaser, and Great Wall Airlines, as vendor, entered into a purchase agreement for the acquisition of the assets, being all valuable business carried on by, and all valuable assets of, Great Wall Airlines, at RMB386.9 million (subject to adjustments). The acquisition obtained the approval from CAAC, NDRC and MOFCOM, and was completed on June 1, 2011. The acquisition is to align with the development strategy of our Company and enhances China Cargo Airlines' capability for sustainable development, while avoiding horizontal competition.

*Shanghai Eastern Airlines Investment Co., Ltd. ("Shanghai Eastern Investment"), a wholly-owned subsidiary of CEA Holding*



On November 4, 2011, our Company entered into an agreement with Shanghai Eastern Investment, pursuant to which Shanghai Eastern Investment acquired 5% of the entire issued share capital of CEA Real Estate Investment Co., Ltd. ("CEA Real Estate"), an entity held by our Company, for a consideration of RMB100.7 million. The terms and conditions of the transaction were agreed to after arm's length negotiations between the parties. The transaction was conducted in accordance to the requirements of the relevant laws and regulations of the PRC and the relevant requirements of the China Securities Regulatory Commission. We believe this transaction will not only lower the risks of our external investments but will also allow us to focus more on our core aviation business and related businesses. For the year ended December 31, 2012, we received approximately RMB93.7 million from Shanghai Eastern Investment for the disposal of 5% of the entire share capital of CEA Real Estate.

*Shanghai Aviation Import & Export Com. Ltd. ("SA Import & Export"), which is indirectly held as to 55% by CEA Holding and 45% by our Company*

On December 6, 2012, we entered into an agreement with SA Import & Export, pursuant to which we agreed to purchase and SA Import & Export agreed to sell the 13.98% of the entire issued share capital of Shanghai Airlines Tours held by SA Import & Export. Shanghai Airlines Tours was previously directly held as to 86.02% by our Company and 13.98% by SA Import & Export, and after completion of the acquisition, it has become a wholly-owned subsidiary of our Company. We paid to SA Import & Export RMB20.7 million for the acquisition as of December 31, 2012.

The main purpose of the acquisition was to resolve the issue of intra-group competition. The acquisition is not expected to have a material impact on our normal operations and financial condition. The terms and conditions of the acquisition are agreed after arm's length negotiations between the parties.

### ***Property Leases***

Our Company and EA Group had entered into an office lease agreement dated January 7, 1997 in respect of office premises located at Kong Gang San Road, Number 92, Shanghai, China. The lease term is one year and renewable by the parties, subject to mutual agreement with respect to rental terms. The total rental payment is approximately RMB158,342 per month. In addition, our Company and EA Group had entered into a staff dormitory lease agreement dated December 31, 1996, pursuant to which EA Group had agreed to enter into lease arrangements with our employees for dormitories in Shanghai, Anhui Province, Shandong Province and Jiangxi Province. The term of the lease and the rental payments are set in accordance with Chinese regulations and the rate prescribed by the Shanghai Municipal Government. CEA Holding has assumed EA Group's rights and liabilities under those lease agreements after its establishment.

On May 12, 2005, we entered into a property leasing agreement with CEA Holding, CEA Northwest and CEA Yunnan for a term of three years, subject to renewal of another three years.

On April 29, 2008, we entered into an agreement to renew the property leasing agreement dated May 12, 2005 for an additional term of three years commencing July 1, 2008. Pursuant to the agreement, we renewed our lease on all properties covered by the previous property leasing agreement entered into on May 12, 2005, except that where we previously leased 81 building properties and related construction, infrastructure and facilities, we instead leased 77 building properties and related construction, infrastructure and facilities covering an aggregate floor area of approximately 452,949 square meters. In addition, CEA Holding was the only counterparty in the property leasing renewal agreement. Under the property leasing renewal agreement, our Company should pay annual rentals of approximately RMB55.1 million.

On October 15, 2010, the Company entered into an agreement relating to the renewal of the existing property leasing agreement with CEA Holding on substantially the same terms. Pursuant to this property leasing renewal agreement, we leased from CEA Holding, for our use in daily business operations: (i) 33 land properties owned by CEA Northwest, covering an aggregate site area of approximately 692,539 square meters primarily located in Xi'an, Xianyang and Lanzhou, with a total of 225 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 269,148 square meters; (ii) seven land properties owned by CEA Yunnan, covering an aggregate site area of approximately 420,768 square meters primarily located in Kunming, together with a total of 77 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 452,949 square meters; (iii) building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 8,853 square meters located in Shijiazhuang; building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 63,552 square meters located in Taiyuan; (iv) seven building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 13,195 square meters located in Shanghai; (v) 29 guest rooms and two suites at the Eastern Hotel owned by CEA Holding, occupying an aggregate floor area of approximately 1,500 square meters located in Shanghai; and (vi) other property facilities owned by CEA Holding and/or its subsidiaries that are leased to us from time to time for various operational needs. Under the property leasing agreement, we were required to pay annual rental payments to CEA Holding. The rentals are payable half-yearly in advance, and are subject to review and adjustments provided that the adjustments shall not exceed the applicable inflation rates published by the relevant local PRC authorities. The Property Leasing Renewal Agreement was effective for a term of three years commencing from January 1, 2011 to December 31, 2013.

On August 30, 2013, we entered into an agreement relating to the renewal of the existing property leasing agreement with CEA Holding on substantially the same terms. Pursuant to the Property Leasing Renewal Agreement, the Company leased 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 36 land properties owned by CEA Northwest, covering an aggregate site area of approximately 713,632 square meters together with a total of 172 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 240,601 square meters;

(b) a maximum of three land properties owned by CEA Yunnan, covering an aggregate site area of approximately 43,258 square meters together with a total of 24 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 77,401 square meters;

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

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

(f) a total of 33 guest rooms in Eastern Hotel owned by CEA Holding, occupying an aggregate floor area of approximately 1,500 square meters 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 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 subsidiaries of CEA Holding as needed by the subsidiaries of CEA Holding. The Property Leasing Renewal Agreement is effective for a term of three years commencing from January 1, 2014 to December 31, 2016.

For the year ended December 31, 2015, we paid a rental of RMB52 million under this property leasing renewal agreement.

### ***Guarantee by CEA Holding***

As of December 31, 2014, bonds of our Group with an aggregate amount of RMB4.8 billion were guaranteed by CEA Holding. As of December 31, 2015, bonds of our Group guaranteed by CEA Holding were RMB4.8 billion. See Note 47(d) to our audited consolidated financial statements.

### ***Subscription Agreements with CEA Holding, CES Global and CES Finance***

On December 10, 2008, CEA Holding entered into an A Share Subscription Agreement (the "Original A Share Subscription Agreement") with our Company to subscribe for new A shares to be issued by our Company. Simultaneously with entering into Original A Share Subscription Agreement, CES Global entered into an H Share Subscription Agreement with our Company (the "Original H Share Subscription Agreement") to subscribe for new H shares to be issued by our Company. Subsequently, the parties made amendments to certain terms of Original A Share Subscription Agreement and Original H Share Subscription Agreement; and on December 29, 2008, CEA Holding entered into a revised A Share Subscription Agreement with our Company to subscribe in cash for 1,437,375,000 new A shares in our Company at the subscription price of RMB3.87 per share with a total subscription price of approximately RMB5,563 million, and CES Global entered into a revised H Share Subscription Agreement with our Company to subscribe in cash for 1,437,375,000 new H shares in our Company at the subscription price of RMB1.00 per share with a total subscription price of approximately RMB1,437 million, respectively. Original A Share Subscription Agreement and Original H Share Subscription Agreement were cancelled accordingly.

On February 26, 2009, we convened a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders, at which special resolutions were passed to approve both the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to CEA Holding and the issuance of 1,437,375,000 new H Shares at subscription price of approximately RMB1,437 million to CES Global. On May 22, 2009, we had received an approval issued by CSRC dated May 19, 2009 in relation to our proposed issue of 1,437,375,000 new H Shares at a price of RMB1.00 per share

to CES Global. In June 2009, the CSRC approved the non-public issuance of 1,437,375,000 new A Shares. We issued 1,437,375,000 new A Shares to CES Holding and 1,437,375,000 new H shares to CES Global on June 25, 2009 and June 26, 2009, respectively.

On July 10, 2009, our Board approved an issuance of not more than 1,350,000,000 new A shares of the Company to 10 or less specific investors and the issuance of not more than 490,000,000 new H shares of the Company to CES Global. As part of this contemplated new A share issuance, CEA Holding entered into a subscription agreement with the Company on July 10, 2009, pursuant to which CEA Holding would subscribe in cash for not more than 490,000,000 new A shares at a subscription price of not less than RMB4.75 per A share. CES Global entered into another subscription agreement with the Company on the same day, pursuant to which CES Global would subscribe in cash for not more than 490,000,000 new H shares at the subscription price of not less than HK\$1.40 per H share. The issuances of the A shares to CEA Holding and H shares to CES Global were completed on December 23, 2009 and December 10, 2009, respectively.

On September 11, 2012, CEA Holding and CES Finance entered into an A Shares Subscription Agreement with our Company. Pursuant to the A Shares Subscription Agreement: (i) CEA Holding, at the subscription price of RMB3.28 per share, subscribed in cash for 241,547,927 new A Shares with a total subscription price of RMB792,277,200.56; and (ii) CES Finance, at the subscription price of RMB3.28 per share, subscribed in cash for 457,317,073 new A Shares with a total subscription price of RMB1,499,999,999.44.

Simultaneously with the entering into of the A Shares Subscription Agreement, CES Global entered into the H Shares Subscription Agreement with the Company. Pursuant to the H Shares Subscription Agreement, CES Global, at the subscription price of HK\$2.32 per share, subscribed in cash for 698,865,000 new H Shares with a total subscription price of HK\$1,621,366,800.

Both CES Finance and CES Global are wholly-owned subsidiaries of CEA Holding. The subscriptions significantly enhanced the capital structure and financial position of our Company by improving our financial position and leverage ratios, and thus strengthened the core competitiveness and risk-resistance capability of our Company. The terms and conditions of the Subscriptions are agreed after arm's length negotiations between the parties. For details, please refer to the announcement furnished to the SEC on Form 6-K dated September 24, 2012.

***Equity Transfer Agreements with CEA Holding***

On October 29, 2010, the Company entered into two equity transfer agreements with CEA Holding in Shanghai. Pursuant to these agreements, the Company acquired 5% of the equity interest in Flight Training Company and 14.14% of the equity interest in Eastern Airlines Hotel held by CEA Holding by way of cash. The acquisition prices were determined on the basis of the appraised net asset value as of June 30, 2010, being the record date in respect of their respective valuations. The resolutions in respect of the said connected transactions were unanimously approved by the independent directors of the Company present at the meeting, who also expressed their independent opinions.

Upon the completion of the equity transfers under these connected transactions, Flight Training Company and Eastern Airlines Hotel has become wholly-owned subsidiaries of the Company. The Company is able to direct and manage Flight Training Company and Eastern Airlines Hotel in a more flexible manner, so as to ensure that they better serve the Company's requirements by providing protection and services to the air crew and to endeavor to open up external markets.

On August 22, 2012, we entered into an agreement with CEA Holding, pursuant to which we agreed to purchase and CEA Holding agreed to sell means 20% of the entire issued share capital of the China United Airlines held by CEA Holding. China United Airlines was held 80% by the Company and 20% by CEA Holding before the transaction. After the completion of the acquisition, China United Airlines has become our wholly-owned subsidiary, which enables us to manage and conduct internal integration of the Group. The terms and conditions of the acquisition were agreed after arm's length negotiations between the parties.

***Subscription Agreement with China Ocean Shipping (Group) Company ("COSCO"), which is a substantial shareholder of Eastern Logistics which in turn is a subsidiary of the Company***

On December 6, 2012, we entered into an agreement with COSCO, pursuant to which we agreed to purchase and COSCO agreed to sell 29.7% of the entire issued share capital of Eastern Logistics held by COSCO. On the same day, we also entered into an agreement with China Cargo Airlines Co., Ltd., or China Cargo, pursuant to which we agreed to purchase and China Cargo agreed to sell its 1% equity interests in Eastern Logistics. COSCO is a substantial shareholder of Eastern Logistics which in turn is a subsidiary of the Company, and COSCO is thus a connected person of the Company.

COSCO is principally engaged in the business of global passenger and cargo shipping, charter booking, voyage charter, time charter, leasing, ship building, purchase and sale of ships, container manufacturing and repairing and accessory making, warehousing, forwarding, multimodal transport and door-to-door transport, and other approved

overseas futures business.

Eastern Logistics is principally engaged in the business of shipping agency, ground cargo handling, road freight transport (general freight), warehousing and property management. In order to integrate the freight transportation business of the Group, expand the business of air-ground transportation, and provide "end-to-end, door-to-door" service, we acquired the equity interests in Eastern Logistics held by COSCO and China Cargo. After the completion of the acquisitions, Eastern Logistics has become a wholly-owned subsidiary of the Company.

The terms and conditions of the acquisitions were agreed after arm's length negotiations between the parties. The resolution regarding considering and approving the acquisitions has been passed at the 2012 fifth regular meeting of the Board held on October 30, 2012.

#### ***Agreement in relation to Aircraft Finance Lease with CEA Leasing***

On May 5, 2015, we entered into a master lease agreement with CES Leasing, pursuant to which CES Leasing agreed to provide finance leasing to us in relation to the 23 aircraft in accordance with the terms and conditions of the master lease agreement and the relevant implementation agreements. CES Leasing is a non-wholly owned subsidiary of CEA Holding, which in turn is the controlling shareholder of the Company.

#### ***Airline Service Agreement with TravelSky Technology Limited ("TravelSky")***

On December 11, 2015, the Company entered into the Airline Service Agreement (the "Agreement") with TravelSky in Shanghai for a term commencing from January 1, 2015 to December 31, 2016. Pursuant to the Agreement, TravelSky will provide the Group with inventory control system, computer reservation system, extended reservation services and the related products and services as well as civil aviation and commercial data network services. The Company will pay the services fee by reference to the standards set by the CAAC. The annual caps for the daily connected transactions with TravelSky of the Company in 2015 and 2016 were estimated to be RMB650 million and RMB730 million. Given that Mr. Li Yangmin, a Director and vice president of the Company is a director of TravelSky, TravelSky is the Company's related party pursuant to the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

#### **C. Interests of Experts and Counsel**

Not applicable.





## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

#### *Financial Statements*

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

#### *Legal Proceedings*

We are involved in routine litigation and other proceedings in the ordinary course of our business. We do not believe that any of these proceedings are likely to be material to our business operations, financial condition or results of operations. In 2005, the family members of certain victims in the aircraft accident (the aircraft was then owned and operated by China Eastern Air Yunnan Company), which occurred in Baotou city in the Inner Mongolia Autonomous Region on November 21, 2004, sued, among other defendants, our Company in a U.S. court for compensation, the amount of which was not determined. We had filed a motion to contest the claim in the U.S. court because we expressly did not assume the legal liability of such incident in our acquisition of certain selected assets relating to the aviation business of CEA Yunnan. The family members of the 32 victims have reached a settlement with us and applied to the Beijing Second Intermediate People's Court to withdraw their actions. On May 31, 2013, the Beijing Second Intermediate People's Court accepted the withdrawal. The California Court in the US ruled to terminate the proceedings in the U.S. on October 24, 2013. Since then, all the local and overseas proceedings with respect to this case have been closed. Accordingly, the management of our Group believes that there has been no material adverse effect on the financial condition and results of operations of our Company. Save as disclosed above, we were not involved in any other new material litigation in the period of this report.

#### *Dividends and Dividend Policy*

For the years ended December 31, 2010, 2011, 2012 and 2013, our Board of Directors did not recommend any dividend payouts due to our total accumulated losses of RMB12,855 million, RMB8,039 million, RMB4,967 million and RMB2,595 million, respectively. Under PRC law, we cannot convert funds from the common reserve to increase our share capital during this period. Based on the audited financial statements of the Company under the *PRC Accounting Standards for Business Enterprises* as of and for the year 2014, the retained earnings of the parent company was RMB21 million as of December 31, 2014. Based on the audited financial statements of the Company under IFRS as of and for the year 2014, the accumulated loss of the parent company was RMB385 million. Pursuant

to the PRC Company Law and its Articles of Association, the Company must recover its losses incurred in previous years with its profit for the year before any dividend distributions are made to its shareholders. The basis of dividend distribution of the Company is the distributable profit of the parent company, which is subject to the principle of adopting the lesser of the profit after tax under the PRC accounting standards and IFRS. As of December 31, 2014, the Company has been recording accumulated losses under IFRS. The Board recommended that no dividend be distributed for the year 2014 and no share capital of the Company be increased through capitalization of its capital reserve. Based on the audited financial statements of the Company under the *PRC Accounting Standards for Business Enterprises* as of and for the year 2015, the retained profits of the parent company were RMB1,680 million as of December 31, 2015. Based on the audited financial statements of the Company under IFRS as of and for the year 2015, the retained profits of the parent company were RMB1,164 million.

In accordance with Rule 17 of Measures on the Administration of Securities Issuance and Underwriting by the CSRC, if listed companies with a plan for issuance of securities have any profit distribution proposal or proposal for capital increase with capital surplus that has not yet been submitted to general meeting for voting or has been approved by shareholders' general meeting but not yet implemented, the issuance of securities can only be proceeded after such proposals have been implemented. Given that the Company's application for non-public issuance of A shares was approved by the CSRC in January 2016 and will expire on 5 July 2016, if the Company had implemented profit distribution in 2015, approval for the profit distribution proposal would have been needed at the 2015 general meeting and the non-public issuance of A shares could only be implemented after the implementation of the profit distribution proposal. This would have narrowed the time frame for the non-public issuance of A shares or would even have made it impossible to implement, in which case the implementation of the Company's non-public issuance project and long-term development would have been severely hampered.

In consideration of factors such as shareholders' interests and the Company's development, the profit distribution proposal recommended by the Board of the Company for the year 2015 is as follows: No profit shall be distributed for the year 2015 and no share capital of the Company shall be increased with its capital reserve. The profit distribution proposal of our Group for the year 2015 will be submitted to the 2015 annual general meeting for consideration. The Board of the Company also intends for, a cash dividend distribution in the interim period of the year 2016 by not less than 40% of the net profit of the Company of the year 2015 under the PRC Accounting Standards.

Our Board declares dividends, if any, in Renminbi with respect to H Shares on a per share basis and pays such dividends in HK dollars. Any final dividend for a fiscal year is subject to shareholders' approval. The Bank of New York Mellon (the "BNYM"), as depositary, converts the HK dollar dividend payments and distributes them to holders of ADSs in U.S. dollars, less expenses of conversion. Under PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of the H Shares share proportionately on a per share basis in all dividends and other distributions declared by our Board, if any, based on the foreign exchange conversion rate published by PBOC, on the date of the distribution of the cash dividend.

We believe that our dividend policy strikes a balance between two important goals providing our shareholders with a competitive return on investment and assuring sufficient reinvestment of profits to enable us to achieve our strategic objectives. The declaration of dividends is subject to the discretion of our Board, which takes into account the following factors:

- our financial results;
- capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- our shareholders interests;
- the effect on our creditworthiness;
- general business and economic conditions; and
- other factors our Board may deem relevant.

Pursuant to PRC laws and regulations, dividends may only be distributed after allowance has been made for: (i) recovery of losses, if any and (ii) allocations to the statutory surplus reserve. The allocations to the statutory surplus reserve is 10% of our net profit determined in accordance with PRC Generally Accepted Accounting Principles. Our distributable profits for the current fiscal year will be equal to our net profits determined in accordance with IFRS, less allocations to the statutory surplus reserve.

## **B. Significant Changes**

## Significant Post Financial Statements Events

Not applicable.

## Item 9. The Offer and Listing

### A. Offer and Listing Details

The principal trading market for our H Shares is the Hong Kong Stock Exchange. The ADSs, each representing 50 H Shares, have been issued by BNYM as the Depositary and are listed on the New York Stock Exchange. Prior to our initial public offering and subsequent listings on the New York Stock Exchange and the Hong Kong Stock Exchange on February 4 and 5, 1997, respectively, there was no market for our H Shares or ADSs. Our publicly traded domestic shares, or A shares, have been listed on the Shanghai Stock Exchange since November 5, 1997.

As of December 31, 2015, there were 4,659,100,000 H Shares issued and outstanding. As of December 31, 2015 and April 22, 2016, there were, respectively, 43 and 42 registered holders of American depository receipts evidencing 1,953,543 and 2,120,583 ADSs, respectively. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. A total of 8,481,078,860 domestic ordinary shares were also outstanding as of December 31, 2015.

The table below sets forth certain market information relating to the trading prices of our H Shares and ADSs in respect of the period from 2009 to April 22, 2016.

	<b>Hong Kong Stock Exchange</b>		<b>New York Stock Exchange</b>	
	<b>Price Per H Share</b>		<b>Price Per ADS</b>	
	<b>(HK\$)</b>		<b>(US\$)</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
2010	5.38	2.53	58.79	23.10
2011	4.46	2.10	27.49	13.25
2012	3.20	2.19	20.66	14.03
2013	3.72	2.24	23.67	14.76
First Quarter 2013	3.72	3.14	23.67	20.15
Second Quarter 2013	3.46	2.24	22.14	14.76
Third Quarter 2013	2.73	2.29	17.69	14.97
Fourth Quarter 2013	3.27	2.47	21.18	15.96
2014	4.05	2.30	26.57	14.85
First Quarter 2014	3.04	2.42	19.60	16.02
Second Quarter 2014	2.72	2.30	17.61	14.85
Third Quarter 2014	2.72	2.38	17.55	15.22
Fourth Quarter 2014	4.05	2.54	26.57	15.63
October 2014	2.95	2.54	18.99	15.63
November 2014	3.88	3.10	24.95	19.57
December 2014	4.05	3.63	26.57	23.18
January 2015	4.08	3.60	26.98	23.68
February 2015	3.97	3.56	25.66	22.87
March 2015	2.72	2.33	32.29	22.13
April 2015	6.80	4.86	46.55	32.30
May 2015	6.38	5.02	40.31	33.92
June 2015	7.56	5.76	45.96	37.98
July 2015	7.07	4.20	49.50	32.90
August 2015	6.72	3.68	42.78	25.85
September 2015	4.70	3.61	30.14	23.29
October 2015	5.15	4.40	33.04	29.27
November 2015	5.02	4.09	31.49	27.00
December 2015	4.68	3.80	29.26	24.83
January 2016	4.43	3.58	25.55	23.77
February 2016	3.88	3.26	24.61	21.20
March 2016	4.35	3.60	27.34	23.79
April 2016 (up to April 22, 2016)	4.64	4.40	30.72	28.23

## **B. Plan of Distribution**

Not applicable.

### **C. Markets**

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

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

### **F. Expenses of the Issue**

Not applicable.

## **Item 10. Additional Information**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

The following is a brief summary of certain provisions of our Articles of Association, as amended. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations. A copy of the English translation of our Articles of Association, as amended on September 9, 2015, is attached as an exhibit to this Annual Report on Form 20-F (which is incorporated by reference).



*Selected Summary of the Articles of Association*

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

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

*Board of Directors*

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

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

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



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

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

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

#### *Description of the Shares*

As of December 31, 2015, our share capital structure was as follows: 13,140,178,860 ordinary shares of which (a) 698,865,000 A shares subject to trading moratorium, which represented 5.318% of our share capital, were held by CEA Holding and CES Finance; (b) 7,782,213,860 A shares without trading moratorium, which represented 59.225% of our share capital, were issued to investors in China; (c) 698,865,000 H shares subject to trading moratorium, which represented 5.318% of our share capital, were issued to CES Global, a wholly owned subsidiary of CEA Holding; and (d) 3,960,235,000 H shares without trading moratorium, which represented 30.138% of our share capital.

Our ordinary shareholders shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of shares held;
- (ii) the right to attend or appoint a proxy to attend Shareholders' general meetings and to vote thereat;



- (iii) the right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;
- (iv) the right to transfer shares in accordance with laws, administrative regulations and provisions of these Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of these Articles of Association, including:
  - (1) the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;
  - (2) the right to inspect and copy, subject to payment of a reasonable charge;
- (vi) all parts of the register of shareholders;
- (vii) personal particulars of each of the Company's directors, supervisors, general manager, deputy general managers and other senior administrative officers, including:
  - (1) present name and alias and any former name or alias;
  - (2) principal address (residence);
  - (3) nationality;
  - (4) primary and all other part-time occupations and duties;
  - (5) identification documents and their relevant numbers;
- (viii) state of the Company's share capital;
- (ix) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;

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

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

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

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

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

### *Shareholders' Meetings*

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

- (i) where the number of Directors is less than the number of Directors required by Company Law or two-thirds of the number of Directors specified in these Articles of Association;
- (ii) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (iii) where shareholder(s) holding 10 per cent or more of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting; or
- (iv) when deemed necessary by the Board of Directors or as requested by the supervisory committee.

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

#### *Shareholders' Rights*

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

#### *Sources of Shareholders' Rights*

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

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

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

#### *Significant Differences in the H Shares and A Shares*

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

#### *Restrictions on Transferability and the Share Register*

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

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

- a fee (for each instrument of transfer) of two Hong Kong dollars and fifty cents or any higher fee as agreed by the
- (1) Stock Exchange has been paid to us for registration of any transfer or any other document which is related to or will affect ownership of or change of ownership of the shares;
- (2) the instrument of transfer only involves H Shares;
- (3) the stamp duty chargeable on the instrument of transfer has been paid;
- (4)

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

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

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

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

#### *Merger and Acquisitions*

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

#### *Repurchase of Shares*

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

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

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

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



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

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

- (i) making a pro rata general offer of repurchase to all our shareholders;
- (ii) repurchasing shares through public dealing on a stock exchange; or
- (iii) repurchasing shares by an off-market agreement off of a stock exchange.

*Interested Shareholders*

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

Article 88: the following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of the shares of that class;
- (ii) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;
- (iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (v) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of such class;
- (vi) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of such class;



- (vii) to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of such class;
- (viii) to restrict the transfer or ownership of the shares of such class or add to such restrictions;
- (ix) to allot and issue rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) to increase the rights or privileges of shares of another class;
- (xi) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring;
- (xii) to vary or abrogate the provisions of this Chapter.

Article 89. Shareholders of the affected class, whether or not otherwise having the right to vote at Shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning sub-paragraphs (2) to (8), (11) and (12) of Article 88, but interested shareholder(s) shall not be entitled to vote at class meetings.

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

- (i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange under Article 30, a "controlling shareholder" within the meaning of Article 53;
- (ii) in the case of a repurchase of shares by an off-market contract under Article 30, a holder of the shares to which the proposed contract relates; and
- (iii) in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate obligation imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

#### *Ownership Threshold*

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

### *Changes in Capital*

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

### *Changes in Registered Capital*

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

### *Recent Amendments to the Articles of Association*

On February 2, 2010, our shareholders approved amendments to the Articles of Association, which was amended, respectively, as follows:

Article 20: "As approved by the China Securities Regulatory Commission, the total amount of shares of the Company is 11,276,538,860 shares."

Article 21: "The Company has issued a total of 11,276,538,860 ordinary shares, comprising a total of 7,782,213,860 A shares, representing 69.01% of the total share capital of the Company, a total of 3,494,325,000 H shares, representing 30.99% of the total share capital of the Company."

Article 24: "The Company's registered capital is Renminbi 11,276,538,860."

The CSRC has enacted regulations in recent years which affect the corporate governance of PRC listed companies and Company Law has also been amended in various areas. As such, the Board proposed to amend certain provisions in our Articles of Association in accordance with the rules and regulations applicable to our Company. Such amendments relate to the general provisions of the Articles of Association, reduction of capital and repurchase of shares, shareholders and register of shareholders, shareholders' general meeting, board of directors, supervisory

committee, financial and accounting systems and profit distribution, merger and division and dissolution and liquidation of our Company. All such amendments were approved at our Annual General Meeting that took place on June 13, 2010.

On November 9, 2012, our shareholders approved further amendments to the Articles of Association, which was amended, respectively, as follows:

Article 146: "The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted. According to the relevant laws and regulations, profit distribution by the Company shall be based on the distributable profit of the Company (non-consolidated statements). "

Article 157: "The Company's profit distribution policy should pay close attention to ensuring a reasonable return of investment to investors, and such profit distribution policy should maintain continuity and stability. The Company shall reasonably distribute cash dividends according to laws and regulations and requirements of securities regulatory authorities, as well as the Company's own operating performance and financial condition. "

Article 157 (A): "Profit distribution manner: The Company may distribute dividends by way of cash, shares, a combination of cash and shares or in other reasonable manner in compliance with laws and regulations. "

Article 157 (B): "Procedures for decision-making on profit distribution by the Company: After the end of each accounting year, the board of directors shall carefully study and examine the profit distribution plan and listen fully to the views of independent directors. The independent directors shall fulfill their responsibilities and play their roles to give specific views. After consideration and approval by the board of directors, the profit distribution plan shall be proposed to the general meeting for voting. Implementation of the profit distribution plan shall be subject to consideration and approval at the general meeting. The board of directors of the Company shall finish distributing the profit within two months after the general meeting is held.

When considering the profit distribution plan at the general meeting of the Company, the board of directors shall communicate and exchange opinions with shareholders, especially minority shareholders, in a proactive manner, fully consider the opinions and requests from minority shareholders and respond to the issues which are of concern to them on a timely basis."

Article 157 (C): "Amendments to profit distribution policy of the Company: The board of directors of the Company shall carefully study and examine and strictly follow the decision-making procedures in the event that the profit

distribution policy needs to be adjusted by reason of any changes in PRC laws and regulations and regulatory policies, or significant changes of external operating environment or operating condition of the Company. In the event of amendments to the profit distribution policy of the Company, the board of directors shall consider the revised plan and the independent directors shall express their independent opinions thereon. Such amendments shall be disclosed to the public upon consideration and approval at the general meeting. "

Article 157 (D): "Conditions and proportion of distribution of cash dividends by the Company:

Proposal and implementation of cash dividends distribution by the Company shall be subject to the following conditions:

(1) The Company records a profit for the year, and the audit institution issues an unqualified audited report on the Company's financial statements for that particular year;

The distributable profit (i.e. the after-tax profit of the Company after making up for losses, allocation to the  
(2) statutory common reserve fund and discretionary common reserve fund) realized by the Company for the year is positive in value;

(3) The Company has sufficient cash flow, and distribution of cash dividends will not affect the Company's normal operation and sustainable development.

Provided that the Company is in good operating condition and has sufficient cash flow to meet the needs for its normal operation and sustainable development, the Company will proactively distribute cash dividends in return to its shareholders, and the accumulated profit distribution made in cash by the Company in the latest three years shall not be less than 30% of the average annual distributable profit in the latest three years. In the event that the said payout ratio of cash dividends cannot be met due to special reasons, the board of directors may adjust the payout ratio of dividends according to actual circumstances and state the reasons therefor. "

Article 157 (E): "Conditions of profit distribution by way of share dividends by the Company:

Provided that reasonable scale of share capital and shareholding structure of the Company are ensured, the Company may consider distributing profits by way of share dividends according to its profitability, cash flow position and business growth for the year. "

Article 157 (F): "Intervals for profit distribution by the Company: Provided that the conditions of profit distribution are met and the Company's normal operation and sustainable development are ensured, the Company shall generally distribute profit on an annual basis. The board of directors of the Company may also propose interim profit distribution based on the profitability and capital position of the Company. "

Article 157 (G): "Information disclosure if the Company fails to distribute cash dividends: In the event that the board of directors of the Company does not propose any profit distribution plan, the board of directors of the Company shall disclose the reasons therefor and the use of such retained funds that would have been otherwise available for distribution in its periodic report. "

On June 26, 2013, our shareholders approved further amendments to the Articles of Association to reflect the expansion of our business scope and the completion of the issue of new shares, as follows:

Article 13: "The scope of business of the Company shall comply with those items approved by the companies registration authority.

The scope of business of the Company includes: domestic and approved international and regional business for air transportation of passengers, cargo, mail, luggage and extended services; general aviation business; maintenance of aviation equipment and machinery; manufacture and maintenance of aviation equipment; agency business for domestic and overseas airlines and other business related to air transportation; insurance by-business agency services; e-commerce; in-flight supermarket; wholesale and retail of goods; and other lawful businesses that can be carried on by a joint stock limited company formed under Company Law."

Article 20: "As approved by the China Securities Regulatory Commission, the total amount of shares of the Company is 12,674,268,860 shares."



Article 21: "The Company has issued a total of 12,674,268,860 ordinary shares, comprising a total of 8,481,078,860 A shares, representing 66.92% of the total share capital of the Company, a total of 4,193,190,000 H shares, representing 33.08% of the total share capital of the Company."

Article 24: "The registered capital of the Company is RMB12,674,268,860."

According to the relevant requirements of CSRC and the Shanghai Stock Exchange, our Board of Directors approved at the 2014 second regular meeting that amendments be made to corresponding terms in the articles of association of our Company 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 our Company for approval.

The amendments to the Articles of Association are as follows:

Article 157: "The Company's profit distribution should pay close attention to ensuring a reasonable return of investment to investors, and such profit distribution policy should maintain continuity and stability. The Company shall reasonably distribute cash dividends according to laws and regulations and requirements of securities regulatory authorities, as well as the Company's own operating performance and financial condition."

Article 157: "The Company's profit distribution should pay close attention to ensuring a reasonable return of investment to investors, and such profit distribution policy should maintain continuity and stability. The Company shall reasonably distribute dividends according to laws and regulations and requirements of securities regulatory authorities, as well as the Company's own operating performance and financial condition, and shall adopt cash distribution as the prioritized means of distribution to distribute profit."

Article 157(F): "Intervals for profit distribution by the Company: Provided that the conditions of profit distribution are met and the Company's normal operation and sustainable development are ensured, the Company shall generally distribute profit on an annual basis. The board of directors of the Company may also propose interim profit distribution based on the profitability and capital position of the Company."

Article 157(F): "Intervals for profit distribution by the Company: Provided that the conditions of profit distribution are met and the Company's normal operation and sustainable development are ensured, the Company shall generally distribute profit on an annual basis. The board of directors of the Company may also propose interim profit distribution based on the profitability and capital position of the Company. Subject to fulfillment of the cash distribution conditions under the articles of association of the Company, the Company shall implement annual cash distribution once a year in principle."



On June 26, 2014, our shareholders approved the above mentioned amendments.

On August 28, 2015, the Resolution on Amendments to Parts of the Terms of the Articles of Association was considered and approved at the seventeenth ordinary meeting of the seventh session of the Board of the Company. As authorized by the general meeting of the Company, the Board agreed to make amendments to corresponding terms in the Articles of Association in connection with the changes made to the share capital of the Company following the completion of the issue of H Shares of the Company to Delta Air Lines .

Article 20: "As approved by the China Securities Regulatory Commission, the total amount of shares of the Company is 12,674,268,860 shares."

Article 20: "As approved by the China Securities Regulatory Commission, the total amount of shares of the Company is 13,140,178,860 shares."

Article 21: "The Company has issued a total of 12,674,268,860 ordinary shares, comprising a total of 8,481,078,860 A shares, representing 66.92% of the total share capital of the Company, a total of 4,193,190,000 H shares, representing 33.08% of the total share capital of the Company."

Article 21: "The Company has issued a total of 13,140,178,860 ordinary shares, comprising a total of 8,481,078,860 A shares, representing 64.54% of the total share capital of the Company, a total of 4,659,100,000 H shares, representing 35.46% of the total share capital of the Company."

Article 24: "The registered capital of the Company is RMB12,674,268,860."

Article 24: "The registered capital of the Company is RMB13,140,178,860."

### **C. Material Contracts**

For a summary of any material contracts entered into by our Company or any of our consolidated subsidiaries outside of the ordinary course of business during the last two years, see "Item 4. Information on the Company", "Item 5.

Operating and Financial Review and Prospects" and "Item 7. Major Shareholders and Related Party Transactions".

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

Supplemental Agreement No.1 to Purchase Agreement Number PA-4077 relating to Boeing Model 737-800 Aircraft, dated July 9, 2015, between our Company and the Boeing Company.

#### **D.Exchange Controls**

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

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

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

## **E. Taxation**

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

### **Hong Kong Taxation**

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

#### ***Dividends***

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

### ***Taxation of Capital Gains***

Gains derived from the sale of capital assets are specifically exempt from profits tax. Thus, no profits tax is imposed on capital gains arising from the sale of property (such as H shares) acquired and held as a capital asset. However, whether or not there has been a sale of a capital asset depends upon the particular circumstances of a case. If a person carries on a business in Hong Kong of trading and dealing in securities and derives trading gains from that business in Hong Kong, that person could be subject to profits tax on any assessable gains. Assessable gains include gains derived from the sales of H shares effected on the Hong Kong Stock Exchange as these gains are considered to be trading gains derived from Hong Kong. Profits tax is currently charged at the rate of 16.5% for corporations and at the rate of 15% for unincorporated businesses (i.e. individuals).

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

### ***Hong Kong Stamp Duty***

Stamp duty is payable by each of the seller and the purchaser for every sold note and every bought note created for every sale and purchase of the H shares. Stamp duty is levied at the total rate of 0.2% (0.1% for each of sold note and bought note) of the value of the H shares transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H shares. If one of the parties to a sale is a non-resident of Hong Kong and does not pay the required stamp duty, the amount of unpaid stamp duty will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such unpaid amount.

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

### ***Hong Kong Estate Duty***

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

## **China Taxation**

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

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

### ***Taxation of Dividends by China***

#### *Individual investors*

*The Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System*, or the Provisional Regulations, provide that dividends from Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. However, the Chinese State Tax Bureau issued, on July 21, 1993, a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals Numbered Guo Shui Fa [1993] No. 045, or No. 45 Document which provides that dividends from a Chinese company on shares listed on an overseas stock exchange, or Overseas Shares, such as H Shares (including H Shares represented by ADSs), would not be subject to Chinese withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares.

Nevertheless, No.45 Document was abolished on January 4, 2011 and the Chinese State Tax Bureau issued, on June 28, 2011, a Notice on Issues Concerning the Levy of Individual Income Tax following the Abolishment of the Document Numbered Guo Shui Fa [1993] No. 045, according to which dividends from a Chinese company are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20% unless otherwise provided in applicable tax treaties between the PRC and the jurisdiction in which the relevant non-resident shareholder resides. The tax rate of dividends income tax applicable to Hong Kong residents and U.S. residents is 10% of the gross amount of interest.



On October 31, 2014, CSRC, MOF and STA together promulgated The Notice of the Relevant Tax Policy of the Pilot Program for the Shanghai-Hong Kong Stock Connect (Hereinafter refer to as Notice 81) which has been effective from November 17, 2014. Pursuant to the Notice 81, for dividends acquired by mainland individual investors through investment in H-shares listed on the Hong Kong Stock Exchange via Hong Kong-Shanghai Stock Connect, the H-share company shall apply to China Securities Depository and Clearing Corporation Limited (Hereinafter refer to as Chinese Clearing). Chinese Clearing shall provide the H-share company with the mainland individual's investor rosters. The H-share company withholds the individual income tax at the tax rate of 20%. For dividends acquired by mainland securities investment funds through investment in shares listed on the Hong Kong Stock Exchange via Hong Kong-Shanghai Stock Connect, the individual income tax shall be collected according to the regulations hereinbefore.

For dividends acquired by Hong Kong investors' (including enterprises and individuals) through investment in A-shares listed on the Shanghai Stock Exchange, before Hong Kong Securities Clearing Limited (Hereinafter refer to as Hong Kong Clearing) meet the conditions to provide Chinese Clearing with detailed data of investors' identity certification and time of shareholding, the different tax policy according to time of shareholding will temporarily not to be implemented. The listed company shall withhold the income tax at the tax rate of 10% and declare and pay to the tax authorities.

#### *Enterprises*

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

In accordance with the Notice 81, (a) for dividends acquired by mainland enterprise investors through investment in shares listed on the Hong Kong Stock Exchange via Hong Kong-Shanghai Stock Connect, they will be accounted into the total income and subject to enterprise income tax according to the laws. Among those, for the dividends acquired by mainland enterprise investors through continuing holding H shares for 12 months, the enterprise income tax shall be exempted according to the laws; (b) the H-share company listed on the Hong Kong Stock Exchange shall apply to the Chinese Clearing to offer them the mainland enterprise investor rosters. The H-share company does not withhold income tax from dividends for mainland enterprise investors. The enterprises shall declare and pay by themselves; and (c) the mainland enterprise investors may apply for tax credit for dividends already withheld by non-H-share listed companies on the Hong Kong Stock Exchange when declaring and paying the enterprise tax income.

### *Tax Treaties*

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

Notice 81 is explicitly stipulated that for Hong Kong investors who are tax residents of other countries that have signed the tax agreement with China to regulate the tax rate for dividends income tax to be less than 10%, the enterprise or individual may, by themselves or withholding agents, apply for the treatment of the tax agreement to the tax authorities of listed companies. After examination and verification, the tax authorities shall reimburse the difference between the levied tax and the payable tax according to the tax agreement.

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

### ***Taxation of Capital Gains by China***

#### *Individual Investors*

According to the Law of Individual Income Tax and its implementation regulations, holders of H Shares or ADSs who have no domiciles and do not reside in China or who have no domiciles but have resided in China for less than one year shall be subject to individual income tax on their income gained within China, unless otherwise reduced or eliminated pursuant to an applicable double taxation treaty.

Notice 81 requires, (a) from November 17, 2014 to November 16, 2017, the income tax from transfer price difference will be temporarily exempted for mainland individual investors' investment in shares listed on the Hong Kong Stock Exchange through Hong Kong-Shanghai Stock Connect; (b) for mainland individual investors, the business tax from transfer price difference in the trading of shares listed on the Hong Kong Stock Exchange through Hong Kong-Shanghai Stock Connect will be temporarily exempted according to current policy; and (c) the income tax and the business tax from transfer price difference will be temporarily exempted for Hong Kong individual investors' investment in A-shares listed on the Shanghai Stock Exchange.

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

### *Enterprises*

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

Pursuant to Notice 81, the income tax from transfer price difference will be accounted into the total income and subject to enterprise income tax according to the laws for mainland enterprise investors' investment in shares listed on the Hong Kong Stock Exchange through Hong Kong-Shanghai Stock Connect. For mainland enterprise investors, the business tax from transfer price difference in the trading of shares listed on the Hong Kong Stock Exchange through Hong Kong-Shanghai Stock Connect shall be levied and exempted according to current policy. And the income tax and the business tax from transfer price difference will be temporarily exempted for Hong Kong enterprise investors' investment in A-shares listed on the Shanghai Stock Exchange.

### *PRC Stamp Tax*

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

According to Notice 81, Hong Kong investors shall pay stamp duty according to mainland current tax policy when trading, inheriting, gifting the A-shares listed on the Shanghai Stock Exchange through Hong Kong-Shanghai Stock Connect.

## United States Federal Income Taxation

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

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

- tax-exempt entities;
- banks, financial institutions, and insurance companies;
- real estate investment trusts, regulated investment companies and grantor trusts;
- dealers or traders in securities, commodities or currencies;
- U.S. Holders that own, actually or constructively, 10% or more of our voting stock;
- persons who receive the H Shares or ADSs as compensation for services;
- U.S. Holders that hold the H Shares or ADSs as part of a straddle or a hedging or conversion transaction;
- persons that generally mark their securities to market for U.S. federal income tax purposes;
- U.S. citizens or tax residents who are residents of the PRC;
- U.S. citizens or tax residents who are subject to Hong Kong profits tax;

- certain U.S. expatriates;
- dual resident corporations; or
- U.S. Holders whose functional currency is not the U.S. dollar.

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

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

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

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income tax without regard to its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of such trust, or (ii) such trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (including any entity treated as a partnership for U.S. federal tax purposes) is a beneficial owner of the H Shares or ADSs, the treatment of the partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If an investor is a partner in a partnership that holds H Shares or ADSs, such investor should consult its tax advisor.

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

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

### **Distributions on the H Shares or ADSs**

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

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by certain non-corporate holders will be subject to taxation at a maximum rate of 20% if the dividends are "qualified dividends." Dividends paid on H Shares or ADSs will be treated as qualified dividends if either (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service, or IRS, has approved for the purposes of the qualified dividend rules, or (ii) the dividends are with respect to ADSs readily tradable on a U.S. securities market, provided that we were not, in each case, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Agreement Between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income (the "Treaty") has been approved for the purposes of the qualified dividend rules, and we expect to qualify for benefits under the Treaty. We are considered a qualified foreign corporation with respect to the ADSs because our ADSs are listed on the New York Stock Exchange. Finally, based on our audited consolidated financial statements and relevant market data, we believe that we did not satisfy the definition for PFIC status for U.S. federal income tax purposes with respect to our 2015 taxable year. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and

relevant market data, we do not anticipate becoming a PFIC for our 2016 taxable year or any future year. However, our status in the current year and future years will depend on our income and assets (which for this purpose depends in part on the market value of the H Shares or ADSs) in those years. See the discussion below under "— Passive Foreign Investment Company".

Holders of H Shares or ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is received actually or constructively by you, regardless of whether you convert the distribution into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you convert the distribution into U.S. dollars will be treated as ordinary income or loss from U.S. sources. If dividends received in HK dollars are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

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

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

You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-U.S. taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H Shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale). The rules relating to the U.S. foreign tax credit are complex and U.S. Holders may be subject to various limitations on the amount of foreign tax credits that are available. In addition, if the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating a U.S. Holder's foreign tax credit limitation will generally be limited to the gross amount of the taxable dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. U.S. Holders should consult their own tax advisors regarding the effect of these rules in their particular circumstance.

### **Sale, Exchange or Other Disposition**

Subject to the discussion below under "— Passive Foreign Investment Company", upon a sale, exchange or other disposition of the H Shares or ADSs, you will generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs. Generally, gain or loss recognized upon the sale or other disposition of H Shares or ADSs will be capital gain or loss, will be long-term capital gain or loss if the U.S. Holder's holding period for such H Shares or ADSs exceeds one year, and will be income or loss from sources within the United States for foreign tax credit limitation purposes. For non-corporate U.S. Holders, the United States income tax rate applicable to net long-term capital gain currently will not exceed 20.0%. The deductibility of capital losses is subject to significant limitations.

A U.S. Holder that receives foreign currency from a sale or disposition of H Shares or ADSs generally will realize an amount equal to the U.S. dollar value of the foreign currency determined on (i) the date of receipt of payment in the case of a cash basis U.S. Holder and (ii) the date of disposition in the case of an accrual basis U.S. Holder. If Shares are treated as traded on an "established securities market", a cash basis taxpayer or, if it so elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale. A U.S. Holder will have a tax basis in the foreign currency received equal to the U.S. dollar amount realized. Any currency exchange gain or loss realized on a subsequent conversion of the foreign currency into U.S. dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. Holder, a cash basis or electing accrual basis U.S. Holder should not recognize any gain or loss on such conversion.

Any gain or loss will generally be U.S. source gain or loss for foreign tax credit limitation purposes and as a result of the U.S. foreign tax credit limitation, foreign taxes, if any, imposed upon capital gains in respect of H Shares or ADSs may not be currently creditable. Under the Treaty, however, if any PRC tax were to be imposed on any gain from the disposition of H Shares or ADSs, the gain could be treated as PRC-source income. U.S. Holders are urged to consult their tax advisors regarding the interaction of the foreign tax credit and the Treaty "resourcing" rule.

### **Passive Foreign Investment Company**

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



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

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

"Passive income" for this purpose includes, for example, dividends, interest, royalties, rents and gains from commodities and securities transactions. Passive income does not include rents and royalties derived from the active conduct of a trade or business. If the stock of a non-U.S. corporation is publicly traded for the taxable year, the asset test is applied using the fair market value of the assets for purposes of measuring such corporation's assets. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income for purposes of the PFIC income and asset tests.

Based on the current and anticipated composition of our assets and income and the current expectations regarding the price of the H Shares and ADSs, we believe that we were not a PFIC for U.S. federal income tax purposes with respect to our 2015 taxable year and we do not intend to become or anticipate becoming a PFIC for any future taxable year. However, the determination of PFIC status is a factual determination that must be made annually at the close of each taxable year and therefore, there can be no certainty as to our status in this regard until the close of the 2016 taxable year. Changes in the nature of our income or assets or a decrease in the trading price of the H Shares or ADSs may cause us to be considered a PFIC in the current or any subsequent year.

If we were a PFIC in any taxable year that you held the H Shares or ADSs, you generally would be subject to special rules with respect to "excess distributions" made by us on the H Shares or ADSs and with respect to gain from your disposition of the H Shares or ADSs. An "excess distribution" generally is defined as the excess of the distributions you receive with respect to the H Shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years, or your holding period for the H Shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H Shares or ADSs ratably over your holding period for the H Shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest U.S. federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income. If we were a PFIC in any year during a U.S. Holder's holding period, we would generally be treated as a PFIC for each subsequent year absent a "purging" election by the U.S. Holder.

These adverse tax consequences may be avoided if the U.S. Holder is eligible to and does elect to annually mark-to-market the H Shares or ADSs. If a U.S. Holder makes a mark-to-market election, such holder will generally include as ordinary income the excess, if any, of the fair market value of the H Shares or ADSs at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the H Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of the H Shares or ADSs will be treated as ordinary income. The mark-to-market election is available only for "marketable stock," which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. The ADSs should qualify as "marketable stock" because the ADSs are listed on the New York Stock Exchange. However, the stock of any of our subsidiaries that were PFICs would not be eligible for the mark-to-market election.

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

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

If we were regarded as a PFIC, a U.S. Holder of H Shares or ADSs generally would be required to file an information return on IRS Form 8621 for any year in which the holder received a direct or indirect distribution with respect to the H Shares or ADSs, recognized gain on a direct or indirect disposition of the H Shares or ADSs, or made an election with respect to the H Shares or ADSs, reporting distributions received and gains realized with respect to the H Shares or ADSs. In addition, if we were regarded as a PFIC, a U.S. Holder would be required to file an annual information return (also on IRS Form 8621) relating to the holder's ownership of the shares or ADSs. This requirement would be in addition to other reporting requirements applicable to ownership in a PFIC.

We encourage you to consult your own tax advisor concerning the U.S. federal income tax consequences of holding the H Shares or ADSs that would arise if we were considered a PFIC.

### **Backup Withholding and Information Reporting**

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

- are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact; or
- provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certify that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules; or
- provide a properly completed IRS Form W-8BEN, certifying your status as a non-U.S. Holder.

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

Certain U.S. Holders may be required to report information with respect to such holder's interest in "specified foreign financial assets" (as defined in Section 6038D of the Code), including stock of a non-U.S. corporation that is not held in an account maintained by certain financial institutions, if the aggregate value of all such assets exceeds certain dollar thresholds. Persons who are required to report specified foreign financial assets and fail to do so may be subject to substantial penalties. U.S. Holders are urged to consult their own tax advisers regarding the foreign financial asset reporting obligations and their possible application to the holding of H Shares or ADSs.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

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

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

#### **I. Subsidiary Information**

For a listing of our significant subsidiaries, see "Item 4. Information on the Company — History and Development of the Company".

## **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

### **Interest Rate Risk**

Our debts include both fixed-rate and variable-rate long-term loans and other loans. As a result, we are subject to the market risk of fluctuation of interest rates which may affect the estimated fair value of our debt liabilities or result in losses in cash flow. We use interest rate swaps to reduce risks related to changes in market interest rates. As of December 31, 2015, the notional amount of the outstanding interest rate swap agreements was approximately US\$1,466 million. The net fair value of the outstanding interest rate swap agreements gave rise to a liability of approximately US\$79 million. These interest rate swap agreements will expire between 2016 and 2025. If the interest rate had been 25 basis points higher with all other variables held constant, interest expenses on our floating rate instruments would have increased by RMB161 million in 2014 and RMB148 million in 2015.

### **Foreign Currency Exchange Rate Risk**

Although we derive most of our income from China in Renminbi, our financial lease obligations as well as certain bank loans are denominated in U.S. dollars and Renminbi. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings generated from ticket sales made in our overseas offices subject to the approval of SAFE. We use forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of December 31, 2015, the notional amount and the net fair value of the outstanding currency forward contracts was approximately US\$12 million and US\$16 million, respectively, which will expire in 2017.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by the PBOC. Transactions in currencies other than the Renminbi during the year are converted into Renminbi at the applicable rates of exchange prevailing at the dates of the transaction. Transaction gains and losses are recognized in our profit or loss account. In 2014 and 2015, we had foreign exchange losses of RMB203 million and RMB4,987 million, respectively. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially and adversely affect our financial condition and results of operations. Following the measures introduced by the PRC government in July 2005 to reform the Renminbi exchange rate regime, the Renminbi has appreciated significantly against certain foreign currencies, including the U.S. dollar and Japanese yen. The following table shows the effect on our profit and loss account as a result of the impact on our non-Renminbi denominated monetary assets and liabilities as of December 31, 2015 as a consequence of a fluctuation in value of the following major foreign currencies.



	<b>Profit and Loss Account (Decrease)/Increase</b>
U.S. dollar depreciates by 1%	581
Japanese yen depreciates by 1%	2
Euro depreciates by 1%	(1                    )

### **Fuel Hedging Risk**

In order to control fuel costs, we enter into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel. In the face of continuing increases in fuel prices, we reduced the impact of the fluctuation in aviation fuel prices through various financial derivative instruments.

We engage in aviation fuel hedging for the purpose of locking in aviation fuel costs. By selecting appropriate instruments, we lock in costs within a hedged price range. However, high fluctuations in aviation fuel prices exceeding the locked-in price ranges has resulted in our Company incurring actual realized and unrealized settlement losses. If the oil price had increased or decreased by 5% compared to the closing price as of December 31, 2015, the fair value gain as of December 31, 2015 would have increased or decreased by approximately RMB1,016 million. All crude oil option contracts signed in past years were settled before December 31, 2012.

## **Item 12. Description of Securities Other than Equity Securities**

### **A. Debt Securities**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

### **C. Other Securities**

Not applicable.

#### D. American Depositary Shares

Our ADSs, each representing 50 H shares, are traded on the New York Stock Exchange under the symbol "CEA." The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by BNYM, as depositary under the Deposit Agreement, dated as of February 5, 1997, among the Company, BNYM and holders and beneficial owners of ADSs. BNYM's principle executive office is at 1 Wall Street, Manhattan, New York City, New York, U.S. ADS holders are required to pay the following service fees to BNYM:

<b>Service</b>	<b>Fees (in U.S. dollars)</b>
Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property	US\$5.00 (or less) per ADSs (or portion of 100 ADSs)
Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates	Cancellation fees
Any cash distribution to ADS registered holders	N/A
Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders	A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs
Depositary services	N/A
Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares	Registration or transfer fees
Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)	Expenses of the depositary
Converting foreign currency to U.S. dollars	Foreign exchange fees
As necessary	Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes
As necessary	Any charges incurred by the depositary or its agents for servicing the deposited securities



For the past annual period, from January 1, 2015 to December 31, 2015, the Company received from the depositary an aggregate of US\$12,054.64 for continuing stock exchange annual listing fees and reimbursement fees, and waived standard out-of-pocket maintenance costs for the ADRs (consisting of administrative expenses) of US\$130,191.56.

BNYM, as depositary, has agreed to reimburse the Company for expenses incurred in the future in relation to the establishment and maintenance of the ADS program, which include standard out-of-pocket expenses such as postage and envelopes for mailing annual and interim financial reports and all related administrative and documentary expenses. BNYM has agreed to reimburse the Company annually for certain investor relationship programs and promotional activities. There are limits as to the amount of reimbursable expenses and this amount is not necessarily commensurate with the amount of fees BNYM collects from ADS investors. BNYM collects fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. BNYM collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay fees. BNYM may also collect its annual fee by deducting cash distributions or by directly billing investors, or by charging the book-entry system accounts of participants acting for investors.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

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

On August 10, 2010, we effected an ADS split whereby each ADS now represents 50 H shares. There was no change to the rights and preferences of the underlying H shares.

### **Item 15. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

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

Disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information required to be disclosed by us in the reports that we file or submit under Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) and have designed internal control over financial reporting or caused internal control over financial reporting to be designed under our supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles, as applicable. Under the supervision and with the participation of our President and our Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015 based upon the criteria in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework)(the COSO criteria). Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2015 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

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

### **Attestation Report of the Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young, an independent registered public accounting firm in Hong Kong, as stated in their report which is included herein.

### **Changes in Internal Control over Financial Reporting**

During 2015, there have been no changes in our internal control over financial reporting that occurred during the fiscal year covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16A. Audit Committee Financial Expert**

Our Board of Directors has determined that Mr. Li Ruoshan, the chairman of our audit committee, is an independent financial expert serving on our audit committee, given his experience in the academic aspects of accounting and notable achievements in accounting education and academic research. Mr. Li Ruoshan is independent of the Board of Directors, senior management, Supervisors or substantial shareholders of our Company.

### **Item 16B. Code of Ethics**

We have adopted a code of ethics that applies to our Directors, supervisors, President, Chief Financial Officer and other senior managers of our Company. We have filed this code of ethics as Exhibit 11.1 to this annual Report (which is incorporated by reference). A copy of our code of ethics will be provided to any person free of charge upon written request to Wang Jian, Secretary Office of the Board of Directors, China Eastern Airlines Corporation Limited at Kong Gang San Road, Number 92, Shanghai 200335, the People's Republic of China.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate audit fees, audit-related fees and tax fees of our principal accountants, Ernst & Young for the years ended December 31, 2014 and 2015, and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees:

	<b>Audit Fees</b>	<b>Audit-Related Fees</b>	<b>Tax Fees</b>	<b>All Other Fees</b>
	(RMB)	(RMB)	(RMB)	(RMB)
2014	14,500,000	—	—	—
2015	15,670,000	700,000	—	—

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

**Audit Fees**

Audit fees primarily consist of fees for the audits of the Company's financial statements prepared under both of IFRS & PRC Accounting Standards for Business Enterprises as of and for the years ended December 31, 2014 and 2015.

**Audit-Related Fees**

Audit-Related fees for the year ended December 31, 2015 primarily consist of fees for and services provided in connection with the Company's entering into the Master Lease Agreement with CES International Financial Leasing Corporation Limited ("CES Leasing").

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

Not applicable.



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

On November 9, 2012, we held an extraordinary general meeting to approve, among other things, the proposals for the non-public issuance of A Shares and H Shares to specific places.

On April 9, 2013, the Company obtained an approval from the CSRC, pursuant to which the CSRC approved the non-public issue by the Company to CEA Holding and CES Finance for no more than 698,865,000 new A Shares. On April 16, 2013, the procedures for registration of the new A Shares with the Shanghai Branch of China Securities Depository & Clearing Co. Ltd. was completed. The 698,865,000 new A Shares, at an issue price of RMB3.28 per share, under this issue are subject to a lock-up period of 36 months from the completion date of the issue and are expected to be listed on April 17, 2016.

The issuance of new H Shares was completed on June 21, 2013. A total of 698,865,000 new H Shares were issued to CES Global at the price of HK\$2.32 per share.

**Item 16F. Changes in Registrant's Certifying Accountant**

**(a) Change of Principal Accountant**

On March 26, 2013, the Board approved not to re-appoint our independent registered public accounting firm, PricewaterhouseCoopers due to the relevant regulations issued by the MOF and the SASAC in December 2011. The relevant regulations restrict and limit the number of years that audit services can be continuously provided by an accounting firm to a PRC state-owned enterprise and its subsidiaries.

The independent audit reports of PricewaterhouseCoopers on our consolidated financial statements for the two fiscal years ended December 31, 2011 and 2012 did not contain any adverse opinion or a disclaimer of opinion, nor were such reports qualified or modified in any way as to any uncertainty, audit scope, or accounting principles.

During the two fiscal years ended December 31, 2011 and 2012 and up to April 24, 2013, there were no disagreements (as that term is used in Item 16F (a)(1)(iv) of Form 20-F and the related instructions to Item 16F) with PricewaterhouseCoopers on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PricewaterhouseCoopers,

would have caused PricewaterhouseCoopers to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements during the end of such fiscal years.

During the two fiscal years ended December 31, 2011 and 2012 and up to April 24, 2013, there were no "reportable events" (defined below) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. As used herein, the term "reportable event" means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

We have provided PricewaterhouseCoopers with a copy of the disclosures under Item 16F(a) as included herein and have requested that PricewaterhouseCoopers furnish us with a letter addressed to the SEC stating whether PricewaterhouseCoopers agrees with the foregoing statements. A copy of the letter dated April 24, 2013, furnished by PricewaterhouseCoopers in response to that request was filed as Exhibit 13.3 to this Form 20-F (which is incorporated by reference).

On March 26, 2013, the Board resolved to propose to appoint Ernst & Young Hua Ming LLP as the Company's independent registered public accounting firm, which was approved by our shareholders at the annual general meeting held on June 26, 2013.

During the fiscal years ended December 31, 2011 and 2012 and up to June 26, 2013, we did not consult, and have not authorized anyone on our behalf to consult Ernst & Young Hua Ming LLP with respect to either: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that Ernst & Young Hua Ming LLP concluded was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a "disagreement" (as that term is used in Item 16F (a)(1)(iv) of Form 20-F and the related instructions to Item 16F) with PricewaterhouseCoopers or a "reportable event" (as described in Item 16F (a)(1)(v) of Form 20-F).

On March 26, 2014, Ernst & Young Hua Ming LLP was not re-appointed as our independent registered public accounting firm.

The independent audit report of Ernst & Young Hua Ming LLP on our consolidated financial statements for the fiscal year ended December 31, 2013 did not contain any adverse opinion or a disclaimer of opinion, nor was such report qualified or modified in any way as to any uncertainty, audit scope, or accounting principles.

During the fiscal year ended December 31, 2013 and up to June 26, 2014, there were no disagreements (as that term is used in Item 16F (a)(1)(iv) of Form 20-F and the related instructions to Item 16F) with Ernst & Young Hua Ming LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young Hua Ming LLP, would have caused Ernst &

Young Hua Ming LLP to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements during the end of such fiscal years.



During the fiscal year ended December 31, 2013 and up to June 26, 2014, there were no "reportable events" (defined below) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. As used herein, the term "reportable event" means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

We have provided Ernst & Young Hua Ming LLP with a copy of the disclosures under Item 16F(a) as included herein and have requested that Ernst & Young Hua Ming LLP furnish us with a letter addressed to the SEC stating whether Ernst & Young Hua Ming LLP agrees with the foregoing statements. A copy of the letter dated April 22, 2015, furnished by Ernst & Young Hua Ming LLP in response to that request was filed as Exhibit 13.4 to this Form 20-F.

#### **(b) Engagement of New Principal Accountant**

On March 26, 2014, the Board resolved to appoint Ernst & Young as the Company's independent registered public accounting firm, which was approved by our shareholders at the annual general meeting held on June 26, 2014.

During the fiscal year ended December 31, 2013 and up to June 26, 2014, we did not consult, and have not authorized anyone on our behalf to consult Ernst & Young with respect to any matter that was either the subject of a "disagreement" (as that term is used in Item 16F (a)(1)(iv) of Form 20-F and the related instructions to Item 16F) with Ernst & Young Hua Ming LLP or a "reportable event" (as described in Item 16F (a)(1)(v) of Form 20-F).

#### **Item 16G. Corporate Governance**

The NYSE has imposed a series of corporate governance listing standards for companies listed on the NYSE in Section 303A of its listing rules. However, the NYSE provides that listed companies that are foreign private issuers, subject to certain limitations and conditions, are permitted to follow "home country" practice in lieu of the provisions of Section 303A of the NYSE Listed Company Manual. To qualify for this exemption, a listed foreign private issuer must disclose any significant differences between their corporate governance practices and the requirements of the NYSE corporate governance standards.

As a foreign private issuer, we are subject to more than one set of corporate governance requirements. In the table below, we set out material differences between our corporate governance practices and the NYSE's corporate governance requirements as set out in Section 303A of the Listed Company Manual:

**NYSE Listed Company  
Manual Requirements on  
Corporate Governance**

**Company's Practices**

**Majority independent  
requirement of the  
Board of Directors**

Section 303A.01 of the Listed Company Manual requires that listed companies must have a majority of independent Directors.

There is no identical corporate governance requirement in the PRC. 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. The standards for establishing independence set forth under the Independent Director Guidance of the PRC differ, to some extent, from those set forth in the *NYSE Listed Company Manual*. We currently have four independent directors out of a total of ten Directors.

**Non-management  
directors must meet at  
regularly scheduled  
executive sessions  
without management**

Section 303A.03 of the Listed Company Manual requires non-management directors of each listed company to meet at regularly scheduled executive sessions without management participation.

There is no identical corporate governance requirement in the PRC.

**Audit and Risk Management Committee**

Sections 303A.06 and 303A.07 of the *NYSE Listed Company Manual* provides that listed companies must have an audit committee composed entirely of independent directors. In addition, audit committee members must satisfy the independence requirements set forth in Section 303A.02(a)(ii). The factors to be considered for independence include whether the committee member receives any consulting, advisory or other compensatory fees from the company and whether such director is affiliated with the listed company or its subsidiary.

There is no identical corporate governance requirement in the PRC. Under the PRC laws and the applicable listing rules in the PRC, a majority of the members of the audit committee must be independent directors. As above, the Audit and Risk Management Committee of the Company is composed of two independent non-executive Directors and one non-executive Director, which also satisfies the requirement of Sections 303A.06.

**Nominating/Corporate Governance Committee**

Section 303A.04 of the Listed Company Manual requires that (i) listed companies must have a nominating/corporate governance committee composed entirely of independent directors and (ii) the nominating/corporate governance committee must have a written charter that addresses the committee's purposes and responsibilities and an annual performance evaluation of the committee.

We have established a Nominations and Remuneration Committee. The merger of the Nomination Committee and Remuneration and Appraisal Committee into the Nominations and Remuneration Committee was agreed at the ordinary meeting of the Board of the Company held on March 19, 2010. The Nominations and Remuneration Committee currently consists of three members, two of which are independent non-executive directors of the Company.

**Compensation Committee**

Section 303A.05 of the Listed Company Manual requires that listed companies must (i) have a compensation committee composed entirely of independent directors and (ii) the

The Nominations and Remuneration Committee is a specialized committee under the Board. It is responsible for the discussion in regard to nominees, standards and procedures for selecting directors and senior management of the Company and making recommendations; responsible for studying and examining the remuneration policy and solutions of directors and senior management of the Company; responsible for studying the performance appraisal standards for directors and senior management of the Company, conducting appraisals and making recommendation.

We have established a Nominations and Remuneration Committee. The merger of the Nomination Committee and Remuneration and Appraisal Committee

compensation committee must have a written charter that addresses the committee's purposes and responsibilities and an annual performance evaluation of the committee.

into the Nominations and Remuneration Committee was agreed at the ordinary meeting of the Board of the Company held on March 19, 2010. The Nominations and Remuneration Committee currently consists of three members, two of which are independent non-executive directors of the Company.

**Code of Business  
Conduct and Ethics**

Section 303A.10 requires a listed company to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers from the code for directors or executive officers.

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 senior managers.

In addition, we have posted a description of such differences under the section entitled "Report of Directors" of our 2015 Hong Kong Annual Report, which can be accessed through the following link on our website:

<http://en.ceair.com/upload/2016/4/2595942436.pdf>

**Item 16H. Mine Safety Disclosures**

Not applicable.

## **PART III**

### **Item 17. Financial Statements**

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

### **Item 18. Financial Statements**

Reference is made to pages F-1 to F-82.

### **Item 19. Exhibits**

- (a) See Item 18 for a list of the financial statements filed as part of this Annual Report.
- (b) Exhibits to this Annual Report:

Exhibit Index

#### **Exhibits Description**

- 1.1 Articles of Association as amended on September 9, 2015 (English translation).<sup>(4)</sup>
- 2.1 Specimen Certificate for the H Shares.<sup>(1)</sup>
- 2.2 Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and Owners and Beneficial Owners from time to time of American Depositary Receipts.<sup>(2)</sup>
- 4.1 Aircraft Sale and Purchase Agreement relating to the disposal of eight Bombardier CRJ-200 Aircraft and ten Embraer ERJ-145 Aircraft, dated November 23, 2012, among our Company, Airbus SAS and other parties.

(3) (5)

- 4.2 Amendment No. 2 to the A 320 Family Purchase Agreement dated December 30, 2010, dated November 23, 2012, between our Company and Airbus SAS. (3) (5)
- 4.3 Acquisition Agreement for Used Aircraft relating to five Airbus Model A340-642 Aircraft, dated April 27, 2012, between our Company and Boeing Aircraft Holding Company. (3) (5)
- 4.4 Purchase Agreement Number PA-03746 relating to Boeing Model 777-300ER Aircraft, dated April 27, 2012, between our Company and the Boeing Company. (3) (5)
- 4.5 Purchase Agreement Number PA-4076 relating to Boeing Model 737-8 Aircraft, dated June 13, 2014, between our Company and the Boeing Company. (5)(6)
- 4.6 Purchase Agreement Number PA-4077 relating to Boeing Model 737-800 Aircraft, dated June 13, 2014, between our Company and the Boeing Company. (5)(6)
- 4.7 Purchase Agreement relating to Airbus A320NEO Aircraft, dated February 28, 2014, between our Company and Airbus SAS. (5)(6)
- 4.8 Supplemental Agreement No.1 to Purchase Agreement Number PA-4077 relating to Boeing Model 737-800 Aircraft, dated July 9, 2015, between our Company and the Boeing Company.(5)
- 8.1 List of Subsidiaries (as of April 22, 2016).
- 11.1 Code of Ethics (English translation).(7)
- 12.1 Certification of the President pursuant to Rule 13a-14(a).
- 12.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
- 13.1 Certification of the President pursuant to Rule 13a-14(b).
- 13.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(b).
- 13.3 Letter from PricewaterhouseCoopers with respect to the disclosures under Item 16F(a).(8)
- 13.4 Letter from Ernst & Young Hua Ming LLP with respect to the disclosures under Item 16F(a).(6)

*Note:*

- (1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-6260), filed with the Securities and Exchange Commission on January 9, 1997.
- (2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-6284), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H Shares.
- (3) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on April 24, 2013.
- (4) Incorporated by reference to our announcement furnished to the Securities and Exchange Commission on Form 6-K dated September 9, 2015.

Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted (5) document has been separately submitted to the Securities and Exchange Commission with a confidential treatment request.

- (6) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on April 22, 2015.
- (7) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on June 24, 2008.
- (8) Incorporated by reference to our annual report on Form 20-F (File No. 001-14550), filed with the Securities and Exchange Commission on April 25, 2014.

## SIGNATURES

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

CHINA EASTERN AIRLINES CORPORATION LIMITED

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

Date: April 25, 2016

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Audited Financial Statements

CHINA EASTERN AIRLINES CORPORATION LIMITED

(Established in the People's Republic of China with limited liability)

December 31, 2015, 2014 and 2013

F-1

Ernst & Young

Tel : +852 2846 9888

22/F, CITIC Tower

Fax : +852 2868 4432

1 Tim Mei Avenue

ey22m

Central, Hong Kong

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of China Eastern Airlines Corporation Limited

We have audited the accompanying consolidated statements of financial position of China Eastern Airlines Corporation Limited (the “Company”) and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Eastern Airlines Corporation Limited and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Eastern Airlines Corporation Limited's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated April 25, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young

Hong Kong

April 25, 2016

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Ernst & Young

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Fax : +852 2868 4432

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ey22m

Central, Hong Kong

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of China Eastern Airlines Corporation Limited

We have audited China Eastern Airlines Corporation Limited's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). China Eastern Airlines Corporation Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, China Eastern Airlines Corporation Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of China Eastern Airlines Corporation Limited as of December 31, 2015 and 2014, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2015 of China Eastern Airlines Corporation Limited and our report dated April 25, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young

Hong Kong

April 25, 2016

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Ernst &  
Young Hua  
Ming LLP

Level 16,  
Ernst&Young  
Tower

&#35745;&#24072; &#21153; &#65288;&#29305;&#27530;&#26222;&#36890;&#21512;&#2024

Oriental Plaza &#22269;&#21271;&#20140;&#24066;&#19996;&#22478;&#21306;&#19996;&#38271; &#34903;1&#2

No.1 East &#19996;&#26041;&#24191;&#22330; &#27004;16&#23618;  
Chang An  
Avenue &#37038;&#25919;&#32534;&#30721;&#65306;100738

Dong Cheng  
District

Beijing, China  
100738

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of China Eastern Airlines Corporation Limited

We have audited the accompanying consolidated statement of financial position of China Eastern Airlines Corporation Limited (the "Company") as of December 31, 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2013, and the consolidated results of its operations and its cash flows for the year ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Ernst & Young Hua Ming LLP

Beijing, The People's Republic of China

April 25, 2014

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2015, 2014 and 2013

(Amounts in millions except for per share data)

	Notes	2015 RMB million	2014 RMB million	2013 RMB million
Revenues	5	93,969	90,185	88,245
Other operating income and gains	6	5,269	3,685	2,725
Gain on fair value changes of derivative financial instruments	8	6	11	18
Operating expenses				
Aircraft fuel		(20,312 )	(30,238 )	(30,681 )
Take-off and landing charges		(10,851 )	(9,440 )	(9,190 )
Depreciation and amortization		(10,471 )	(9,183 )	(8,226 )
Wages, salaries and benefits	9	(16,459 )	(11,270 )	(13,454 )
Aircraft maintenance		(4,304 )	(4,453 )	(4,690 )
Impairment charges	10	(228 )	(12 )	(186 )
Food and beverages		(2,469 )	(2,364 )	(2,268 )
Aircraft operating lease rentals		(4,254 )	(4,502 )	(4,605 )
Other operating lease rentals		(812 )	(637 )	(679 )
Selling and marketing expenses		(3,651 )	(4,120 )	(4,139 )
Civil aviation development fund		(1,826 )	(1,656 )	(1,566 )
Ground services and other expenses		(5,479 )	(4,998 )	(5,105 )
Indirect operating expenses		(5,503 )	(4,950 )	(4,623 )
Total operating expenses		(86,619 )	(87,823 )	(89,412 )
Operating profit	11	12,625	6,058	1,576
Share of results of associates	22	126	91	38
Share of results of joint ventures	23	26	36	27
Finance income	12	66	88	2,125
Finance costs	13	(7,176 )	(2,160 )	(1,549 )
Profit before income tax		5,667	4,113	2,217
Income tax expense	14	(624 )	(573 )	(124 )
Profit for the year		5,043	3,540	2,093

Other comprehensive income for the year



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Other comprehensive income to be reclassified to profit or loss in subsequent periods:

Cash flow hedges, net of tax	39	10	(11	)	246
Fair value changes of available-for-sale investments, net of tax		87	13		157
Fair value changes of available-for-sale investments held by an associate, net of tax	22	7	(1	)	(3
				)	)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		104	1		400
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Actuarial gains/(losses) on the post-retirement benefit obligations, net of tax	37	196	(333	)	467
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		196	(333	)	467
Other comprehensive income/(loss), net of tax		300	(332	)	867
Total comprehensive income for the year		5,343	3,208		2,960

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
(CONTINUED)

For the year ended December 31, 2015, 2014 and 2013

(Amounts in millions except for per share data)

	Notes	2015 RMB million	2014 RMB million	2013 RMB million
Profit attributable to:				
Equity holders of the Company		4,537	3,410	2,373
Non-controlling interests		506	130	(280 )
Profit for the year		5,043	3,540	2,093
Total comprehensive income attributable to:				
Equity holders of the Company		4,834	3,071	3,180
Non-controlling interests		509	137	(220 )
Total comprehensive income for the year		5,343	3,208	2,960
Earnings per share attributable to the equity holders of the Company during the year				
– Basic and diluted (RMB)	15	0.35	0.27	0.20

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2015 and 2014

(Amounts in millions except for per share data)

		December 31, 2015	December 31, 2014
	Notes	RMB million	RMB million
Non-current assets			
Intangible assets	17	11,522	11,500
Property, plant and equipment	18	133,242	109,439
Investment properties	19	294	-
Lease prepayments	20	2,094	2,206
Advanced payments on acquisition of aircraft	21	21,207	20,260
Investments in associates	22	1,543	1,086
Investments in joint ventures	23	518	505
Available-for-sale investments	24	452	433
Other non-current assets	25	3,754	1,957
Deferred tax assets	38	243	170
Derivative financial instruments	39	45	30
		174,914	147,586
Current assets			
Flight equipment spare parts	26	2,056	2,259
Trade receivables	27	2,867	3,862
Prepayments and other receivables	28	8,446	6,394
Derivative financial instruments	39	-	5
Restricted bank deposits and short-term bank deposits	29	35	38
Cash and cash equivalents	30	9,080	1,355
Assets classified as held for sale	16	594	4,330
		23,078	18,243
Current liabilities			
Sales in advance of carriage		5,841	5,064
Trade and bills payable	31	3,712	2,083
Other payables and accruals	32	19,057	19,215
Current portion of obligations under finance leases	33	6,109	4,596
Current portion of borrowings	34	38,214	28,676
Income tax payable		169	229
	35	1,281	1,267

Current portion of provision for return condition checks for aircraft under operating leases			
Derivative financial instruments	39	4	-
		74,387	61,130
Net current liabilities		(51,309	) (42,887 )
Total assets less current liabilities		123,605	104,699

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As of December 31, 2015 and 2014

(Amounts in millions except for per share data)

		December 31, 2015	December 31, 2014
	Notes	RMB million	RMB million
Non-current liabilities			
Obligations under finance leases	33	46,290	34,099
Borrowings	34	28,498	30,513
Provision for return condition checks for aircraft under operating leases	35	2,222	2,617
Other long-term liabilities	36	3,990	2,756
Post-retirement benefit obligations	37	2,569	2,822
Deferred tax liabilities	38	8	26
Derivative financial instruments	39	97	95
		83,674	72,928
Net assets		39,931	31,771
Equity			
Equity attributable to the equity holders of the Company			
– Share capital	41	13,140	12,674
– Reserves	42	24,271	17,300
		37,411	29,974
Non-controlling interests		2,520	1,797
Total equity		39,931	31,771

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2015, 2014 and 2013

(Amounts in millions except for per share data)

	Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained profits/ (accumulated losses)	Subtotal		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at January 1, 2013	11,277	13,898	(4,968 )	20,207	1,528	21,735
Profit/(loss) for the year	-	-	2,373	2,373	(280 )	2,093
Other comprehensive income	-	807	-	807	60	867
Total comprehensive income for the year	-	807	2,373	3,180	(220 )	2,960
Capital contribution by non-controlling interests in subsidiaries	-	-	-	-	406	406
Dividends paid to non-controlling interests	-	-	-	-	(19 )	(19 )
Acquisition of non-controlling interests in subsidiaries	-	-	-	-	(15 )	(15 )
Issue of shares	1,397	2,175	-	3,572	-	3,572
Others	-	(57 )	-	(57 )	-	(57 )
Balance at December 31, 2013	12,674	16,823	(2,595 )	26,902	1,680	28,582
Profit for the year	-	-	3,410	3,410	130	3,540
Other comprehensive income	-	(339 )	-	(339 )	7	(332 )
Total comprehensive income for the year	-	(339 )	3,410	3,071	137	3,208
Dividends paid to non-controlling interests	-	-	-	-	(20 )	(20 )
Others	-	1	-	1	-	1
Balance at December 31, 2014	12,674	16,485	815	29,974	1,797	31,771
Profit for the year	-	-	4,537	4,537	506	5,043
Other comprehensive income	-	297	-	297	3	300
	-	297	4,537	4,834	509	5,343

Total comprehensive income for the year							
Issue of shares (Note 41)	466	2,389	-	2,855	-	2,855	
Acquisition of non-controlling interests	-	(252 )	-	(252 )	252	-	
Dividends paid to non-controlling interests	-	-	-	-	(38 )	(38 )	
Transfer from retained profits	-	184	(184 )	-	-	-	
Balance at December 31, 2015	13,140	19,103	* 5,168	* 37,411	2,520	39,931	

\* These reserve accounts comprise the consolidated reserves of RMB24,271 million (2014: RMB17,300 million; 2013: RMB14,228 million) in the consolidated statement of financial position.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2015, 2014 and 2013

(Amounts in millions except for per share data)

	Notes	2015 RMB million	2014 RMB million	2013 RMB million
Cash flows from operating activities				
Cash generated from operations	45(a)	25,535	12,767	11,120
Income tax paid		(1,210)	(471)	(314)
Net cash flows from operating activities		24,325	12,296	10,806
Cash flows from investing activities				
Additions to property, plant and equipment		(8,609)	(5,640)	(1,286)
Additions to lease prepayments	20	(82)	(109)	(438)
Additions to intangible assets	17	(109)	(79)	(98)
Advanced payments on acquisition of aircraft	21	(24,772)	(20,067)	(17,261)
Proceeds from disposal of assets classified as held for sale		4,227	344	-
Proceeds from disposal of property, plant and equipment		1,294	1,623	556
Proceeds from disposal of lease payments		47	-	-
Decrease in restricted and short-term bank deposits		3	-	-
Proceeds from disposal of short term deposits		-	132	1,492
Purchase of a shareholding in a joint venture		-	(58)	-
Increase in shareholding in associates		(413)	-	-
Capital injections in associates		-	-	(237)
Acquisition of a subsidiary, net of cash acquired		-	16	(12)
Purchase of available-for-sale investments		-	(7)	(47)
Interest received		66	88	196
Dividends received		92	75	95
Proceeds from disposal of interest in an associate		-	-	12
Proceeds from disposal of interest in a subsidiary		49	-	-
Repayment of loans from an associate		372	-	-
Advances of loans to an associate		-	(369)	-
Proceeds from disposal of interests in available-for-sale investments		35	18	-
Net cash flows used in investing activities		(27,800)	(24,033)	(17,028)



## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the years ended December 31, 2015, 2014 and 2013

(Amounts in millions except for per share data)

	Notes	2015 RMB million	2014 RMB million	2013 RMB million
Cash flows from financing activities				
Proceeds from issue of shares		2,855	-	3,572
Proceeds from draw-down of short-term bank loans		26,916	33,863	15,635
Repayments of short-term debentures		(10,000)	(4,000)	(4,000)
Repayments of short-term bank loans		(34,767)	(27,810)	(15,823)
Proceeds from issuance of short-term debentures		21,500	4,000	4,000
Proceeds from issuance of long-term debentures and bonds		-	3,300	6,985
Proceeds from government grants		-	3	13
Proceeds from draw down of long-term bank loans and other financing activities		24,572	16,971	8,958
Repayments of long-term bank loans		(10,540)	(7,451)	(9,792)
Repayments of long-term bonds		-	(2,500)	-
Principal repayments of finance lease obligations		(6,350)	(3,250)	(2,448)
Interest paid		(3,065)	(1,994)	(1,693)
Capital contribution from non-controlling interests of subsidiaries		-	-	406
Acquisition of non-controlling interests in subsidiaries		-	-	(15)
Dividends paid to non-controlling interests of subsidiaries		(38)	(20)	(68)
Net cash flows from financing activities		11,083	11,112	5,730
Net increase/(decrease) in cash and cash equivalents		7,608	(625)	(492)
Cash and cash equivalents at beginning of year		1,355	1,995	2,512
Effect of foreign exchange rate changes		117	(15)	(25)
Cash and cash equivalents at December 31	30	9,080	1,355	1,995

## 1. CORPORATE AND GROUP INFORMATION

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

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

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

These financial statements were approved and authorized for issue by the Company’s Board of Directors (the “Board”) on April 25, 2016.

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and address	Issued ordinary/ registered share capital million	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Eastern Airlines Jiangsu Co., Ltd. (“CEA Jiangsu”)	PRC May 3, 1993	RMB 2,000	62.56	% -	Provision of airline services
China Eastern Airlines Wuhan Co., Ltd. (“CEA Wuhan”)	PRC August 16, 2002	RMB 1,750	60	% -	Provision of airline services
Shanghai Eastern Flight Training Co., Ltd. (“Shanghai Flight Training”)	PRC December 18, 1995	RMB 694	100	% -	Provision of flight training services

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Shanghai Airlines Co., Ltd. ("Shanghai Airlines")	PRC March 16, 2010	RMB 500	100	%	-	Provision of airline services
China Cargo Airlines Co., Ltd. ("China Cargo")	PRC July 22, 1998	RMB 3,000	-		83 %	Provision of cargo carriage service
China Eastern Airlines Technology Co., Ltd. ("Eastern Technology")	PRC November 19, 2014	RMB 4,300	100	%	-	Provision of airline maintenance services
Shanghai Eastern Airlines Logistics Co., Ltd. ("Eastern Logistics")	PRC August 23, 2004	RMB 1,150	100	%	-	Provision of cargo logistics services
Eastern Business Airlines Service Co., Ltd. ("Eastern Business Airlines Service")	PRC September 27, 2008	RMB 50	100	%	-	Provision of airlines consultation services
China Eastern Airlines Yunnan Co., Ltd. ("CEA Yunnan")	PRC August 2, 2011	RMB 3,662	90.36	%	-	Provision of airline services

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## 1. CORPORATE AND GROUP INFORMATION (cont'd)

Particulars of the Company's principal subsidiaries are as follows: (cont'd)

Name	Place of incorporation/ registration and address	Issued ordinary/ registered share capital million	Percentage of equity attributable to the Company			Principal activities
			Direct	Indirect		
Eastern Air Overseas (Hong Kong) Co., Ltd. ("Eastern Air Overseas")	Hong Kong June 10, 2011	HKD 30	100	%	-	Provision of import and export, investment, leasing and consultation services
China United Airlines Co., Ltd. ("China United Airlines")	PRC September 21, 1984	RMB 1,320	100	%	-	Provision of airline services
Eastern Airlines Hotel Co., Ltd.	PRC March 18, 1998	RMB 70	100	%	-	Provision of hotel services primarily to crew members
Shanghai Airlines Tours International (Group) Co., Ltd. ("Shanghai Airlines Tours")	PRC August 29, 1992	RMB 50	100	%	-	Tour operations, travel and air ticketing agency and transportation
China Eastern Airlines Application Development Center Co., Ltd. ("Application Development Center")	PRC November 21, 2011	RMB 498	100	%	-	Provision of R&D of technology and products in the field of aviation

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All of the PRC- incorporated subsidiaries of the Company listed above are limited liability companies.



## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest million except when otherwise indicate.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

### Going concern

As at December 31, 2015, the Group's current liabilities exceeded its current assets by approximately RMB51.31 billion. In preparing the financial statements, the Board conducts an adequate and detailed review over the Group's going concern ability based on the current financial situation.

The Board has taken active actions to deal with the situation that current liabilities exceeded its current assets and the Board is confident that they have obtained adequate credit facility from the banks to support the floating capital. As at December 31, 2015, the Group had total unutilized credit facility amounting to approximately RMB55.17 billion from banks.

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19

*Defined Benefit Plans: Employee Contributions*

*Annual Improvements to IFRSs 2010–2012 Cycle* Amendments to a number of IFRSs

*Annual Improvements to IFRSs 2011–2013 Cycle* Amendments to a number of IFRSs

The above new and amended standards have had no material impact on the Group.

The nature and the impact of each amendment is described below:

Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the (a) amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group's post-retirement benefit plan does not require the contributions from employees.

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## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (cont'd)

(b) The *Annual Improvements to IFRSs 2010-2012 Cycle* sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

a. *IFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

b. *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortization of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

c. *IAS 24 Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to IFRSs 2011-2013 Cycle* sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

a. *IFRS 3 Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendments have had no impact on the Group.

b. *IFRS 13 Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

c. *IAS 40 Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group did not purchase any investment properties during the year.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

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## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	<i>Financial Instruments</i> <sup>3</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>6</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>1</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>5</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
IFRS 16	<i>Leases</i> <sup>4</sup>
Amendments to IAS 1	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to IAS 7	<i>Disclosure Initiative</i> <sup>2</sup>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> <sup>2</sup>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> <sup>1</sup>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> <sup>1</sup>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs <sup>1</sup>

<sup>1</sup>Effective for annual periods beginning on or after January 1, 2016

<sup>2</sup>Effective for annual periods beginning on or after January 1, 2017

<sup>3</sup>Effective for annual periods beginning on or after January 1, 2018

<sup>4</sup>Effective for annual periods beginning on or after January 1, 2019

<sup>5</sup>Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after January 1, 2016 and therefore is not applicable to the Group

<sup>6</sup>No mandatory effective date yet determined

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from January 1, 2018. The Group is currently assessing the impact of the standard.

### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2016.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on January 1, 2018. The Group is currently assessing the impact of the standard.

IFRS 16 set out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure the lessees and the lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis, and subsequently, a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, IFRS 16 also requires enhanced disclosures to be provided by lessors. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Group expects to adopt IFRS 16 on January 1, 2019 and is currently assessing the impact of the standard upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in IAS 1;
- (ii) that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. The Group expects to adopt the amendments from January 1, 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any significant impact on the financial position or performance of the Group upon adoption on January 1, 2016.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, both from cash flows and non-cash changes. The amendments are mandatory for annual periods beginning on or after January 1, 2017 and are not expected to have any significant impact on the Group's financial statements.

2.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized 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 unrealized 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 recognizes 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 recognized in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the office of the General Manager that makes strategic decisions.

Foreign currency translation

(i) Functional currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in “RMB”, which is the Company’s functional currency.

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within ‘finance income’ or ‘finance costs’.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Revenue recognition and sales in advance of carriage

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

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition and sales in advance of carriage (cont'd)

(i) Traffic revenues

Passenger, cargo and mail revenues are recognized as traffic revenues when the transportation services are provided. The value of sold but unused tickets is recognized 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 recognized when the services are rendered.

(iii) Cargo handling income

Revenues from the provision of cargo handling are recognized when the services are rendered.

(iv) Commission income

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

(v) Other revenue

Revenues from other operating businesses, including income derived from the provision of freight forwarding, are recognized when the services are rendered.

(vi) Frequent flyer programs

The Group operates frequent flyer programs that provide travel awards to program members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired.

(vii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest rate method.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Maintenance and overhaul costs

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

In respect of aircraft and engines owned by the Group or held under finance leases, overhaul costs that meet specific recognition criteria are capitalized as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles.

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

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 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 capitalized as part of the cost of those assets. The capitalization 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 capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Income tax

Income tax for the period comprises current and deferred tax. Income tax is recognized in profit or loss, except that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

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

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

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

### Intangible assets

#### (i) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized 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, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

#### (ii) Computer software costs

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives of 5 years. Costs associated with developing or maintaining computer software programs are recognized as expenses when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred pilot recruitment costs

Deferred pilot recruitment costs represent the costs borne by the Group in connection with securing certain minimum period of employment of pilots and are amortized on a straight-line basis over the anticipated beneficial period of 5 years, starting from the date the pilot joins the Group.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group;

(iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

#### Property, plant and equipment

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

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

When each major aircraft overhaul is performed, its cost is recognized 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 derecognized and charged to profit or loss.

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

Owned and finance leased aircraft and engines	15 to 20 years
Other flight equipment, including rotables	10 years
Buildings	8 to 45 years
Other property, plant and equipment	3 to 20 years





## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Property, plant and equipment (cont'd)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each financial year end. The carrying amount of an item of property, plant and equipment is written off immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

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

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

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. After initial recognition, the Group chooses the cost model to measure all of its investment properties.

Depreciation is calculated on the straight-line basis to write off the cost to its residual value over its estimated useful life. The estimated useful lives are as follows:

Buildings 30 to 35 years

The carrying amounts of investment properties measured using the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of the retirement or disposal.

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

Assets that have indefinite useful lives or which are not yet available for use are not subject to amortization 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 recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### Non-current assets and disposal groups held for sale

Non-current assets and disposal of groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

#### Lease prepayments

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

#### Advanced payments on acquisition of aircraft

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Flight equipment spare parts

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

Trade and other receivables

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including assets similar in nature to cash, which are not restricted as to use.

### Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

### Borrowings

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

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

### Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized 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 recognized 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 recognized and measured as a provision.

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Leases

(i)

As lessee

#### *Finance leases*

Leases where the Group has acquired substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the assets and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in current portion of obligation under finance leases and obligations under finance leases, respectively. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets are depreciated using a straight-line basis over their expected useful lives to residual values.

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

#### *Operating leases*

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

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognized immediately in profit or loss, except to the extent that any profit or loss is compensated for by future lease payments at above or below market value, then the profit or loss is deferred and amortized over the period for which the asset is expected to be used.

(ii)

As lessor

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

#### Retirement benefits

(i)

Defined contribution plans

The Group participates in schemes regarding pension and medical benefits for employees organized by the municipal governments of the relevant provinces. Contributions to these schemes are expensed as incurred.

The Group also implemented an additional defined contribution pension benefit scheme (annuity) for voluntary eligible employees. Contributions are made based on a percentage of the employees' total salaries and are charged to profit or loss as incurred.

(ii)

Defined benefit plan

The Group provides eligible retirees with certain post-retirement benefits including retirement subsidies, transportation allowance as well as other welfare. The defined post-retirement benefits are unfunded. The cost of providing benefits under the post-retirement benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the post-retirement benefit plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss at the earlier of:



- the date of the plan amendment or curtailment; and
- the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under “Wages, salaries and benefits” and “Finance costs” in profit or loss:

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

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Derivative financial instruments and hedge accounting

#### *Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*

The change in the fair value of a hedging derivative is recognized in profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognized in profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

*Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognized immediately in profit or loss.

Amounts recognized in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

*Current versus non-current classification*

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

hedged item is less than 12 months.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Available-for-sale investments

Investments in securities other than subsidiaries, associates and joint ventures, being held for non-trading purposes, are classified as available-for-sale investments and are 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 reporting date, the fair value is remeasured, with any resulting gain or loss being recognized in other comprehensive income, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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

Dividend distribution

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

Fair value measurement

The Group measures its derivative financial instruments and listed equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Business combination

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

• the rights to receive cash flows from the asset have expired; or

the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either &bull;(a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.



### 3. FINANCIAL RISK MANAGEMENT

#### (a) **Financial risk factors**

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

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

#### **Foreign currency risk**

The Group operates its business in many countries and territories. The Group generates its revenue in different currencies, and its foreign currency liabilities at the end of the period are much higher than its foreign currency assets. The Group's major liability item (mainly resulting from purchases of aircraft) is mainly priced and settled in foreign currencies, primarily US dollars. The Group is exposed to currency risks from fluctuations in various foreign currency exchange rates against RMB.

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

In addition, fluctuations in foreign currency exchange rates will affect the Group's future costs for purchases of aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports.

The Group entered into certain foreign exchange forward contracts and cross currency swap to manage part of these foreign currency risks. As at December 31, 2015, the currency derivatives at notional value and cross currency swap at

notional value were RMB78 million and RMB244 million, respectively. Details of foreign currency forward contracts and cross currency swap are disclosed in Note 39 to the financial statements.

The following tables detail the Group's exposure at the reporting dates to major currency risk:

	2015		
	USD	Euro	JPY
	RMB	RMB million	RMB million
	million		
Trade and other receivables	1,684	92	16
Cash and cash equivalents	7,755	56	36
Deposits relating to aircraft under operating leases	145	-	-
Other non-current assets	322	-	-
Trade and other payables	(124 )	-	(3 )
Obligations under finance leases	(50,342)	-	(344 )
Borrowings	(36,943)	-	-

## 3. FINANCIAL RISK MANAGEMENT (cont'd)

## (a) Financial risk factors (cont'd)

Foreign currency risk (cont'd)

	2014 USD RMB million	Euro RMB million	JPY RMB million
Trade and other receivables	1,684	97	12
Cash and cash equivalents	490	45	16
Deposits relating to aircraft under operating leases	482	-	-
Other non-current assets	46	-	-
Trade and other payables	(30 )	-	(2 )
Obligations under finance leases	(36,437)	-	(375 )
Borrowings	(42,984)	-	-

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

	2015 Effect on profit or loss RMB million	Effect on other comprehensive income RMB million	2014 Effect on profit or loss RMB million	Effect on other comprehensive income RMB million
If the RMB (weakens) /strengthens against the US dollar	(581)/581	-	(628)/628	-
If the RMB (weakens) /strengthens against the Euro	1/(1)	-	2/(2)	-
If the RMB (weakens) /strengthens against the Japanese Yen	(2)/2	-	(4)/4	-

Interest rate risk

The Group's interest rate risk primarily arises from borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings and finance leases issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the proportion of borrowings and finance leases issued at variable rates and fixed rates based on the market environment.

The Group's finance department has been monitoring the level of interest rates. The increase in the interest rates will increase the interest costs of borrowings and finance leases issued at variable rates, which will further impact the performance of the Group. To hedge against the variability in the cash flows arising from a change in market interest rates, the Group has entered into certain interest rate swaps to swap variable rates into fixed rates. The interest rates and terms of repayment of borrowings made to the Group and interest rate swaps are disclosed in Notes 34 and 39(a) to the financial statements.

The following tables detail the interest rate profiles of the Group's interest-bearing financial instruments at the reporting dates:

	2015	2014
	RMB million	RMB million
Floating rate instruments		
Cash and cash equivalents	9,080	1,355
Restricted bank deposits and short-term bank deposits	35	38
Bills payable included in trade and bills payable	(800	) -
Borrowings	(34,823	) (37,302
Obligations under finance leases	(52,399	) (38,695
Interest rate swap at notional amount	9,474	4,791
Cross currency swap at notional amount	244	-

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## 3. FINANCIAL RISK MANAGEMENT (cont'd)

## (a) Financial risk factors (cont'd)

**Interest rate risk (cont'd)**

	2015 RMB million	2014 RMB million
Fixed rate instruments		
Borrowings	(31,889 )	(21,887 )
Interest rate swap at notional amount	48	110

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

	2015 Effect on profit or loss RMB million	Effect on other comprehensive income RMB million	2014 Effect on profit or loss RMB million	Effect on other comprehensive income RMB million
Floating rate instruments	(148 )	18	(161 )	12

**Fuel price risk**

The Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense component for the Group. Aircraft fuel accounts for approximate 23% of the Group's operating expenses (2014: 34%).

As at December 31, 2015, the Group had no open crude oil option contracts.

For the year ended December 31, 2015, if fuel price had been 5% higher/lower with all other variables held constant, the Group's fuel cost would have been RMB1,016 million higher/lower (2014: RMB1,512 million higher/lower).

### **Credit risk**

The Group's credit risk is primarily attributable to cash and cash equivalents, deposits and derivative financial instruments with banks and financial institutions, as well as credit exposures to sales agents.

A significant portion of the Group's air tickets are sold by sales agents participating in the Billing and Settlements Plan ("BSP"), a clearing system between airlines and sales agents organized by the International Air Transportation Association. The balance due from BSP agents amounted to approximately RMB752 million as at December 31, 2015 (2014: approximately RMB848 million). The credit risk exposure to BSP and the remaining trade receivables are maintained by the Group on an on-going basis and the allowance for impairment of doubtful debts is within management's expectations.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other banks which are highly rated by international credit rating companies. The Group also deposits cash and cash equivalents in an associate financial institution owned by its holding company (Note 47(c)(iii)). Management does not expect any loss to arise from non-performance by these banks and the financial institution.

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

## 3. FINANCIAL RISK MANAGEMENT (cont'd)

## (a) Financial risk factors (cont'd)

**Liquidity risk**

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

The Group operates with a working capital deficit. As at December 31, 2015, the Group's net current liabilities amounted to RMB51,309 million (2014: RMB42,887 million). For the year ended December 31, 2015, the Group recorded a net cash inflow from operating activities of RMB24,325 million (2014: inflow RMB12,296 million), a net cash outflow from investing activities and financing activities of RMB16,717 million (2014: outflow RMB12,921 million), and an increase in cash and cash equivalents of RMB7,608 million (2014: decrease of RMB625 million).

The Directors of the Company believe that cash from operations and bank loans will be sufficient to meet the Group's operating cash flow. Due to the dynamic nature of the underlying businesses, the Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Directors of the Company believe that the Group has obtained sufficient general credit facilities from the PRC banks for financing future capital commitments and for working capital purposes (see Note 2.1).

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

	Less than 1 year RMB million	Between 1 and 2 years RMB million	Between 2 and 5 years RMB million	Over 5 years RMB million
At December 31, 2015				
Borrowings	39,794	11,067	9,477	10,873
Derivative financial instruments	4	-	58	39
Obligations under finance leases	7,377	7,101	19,183	25,167
Trade, bills and other payables	15,433	-	-	-

Total	62,608	18,168	28,718	36,079
	Less than 1 year RMB million	Between 1 and 2 years RMB million	Between 2 and 5 years RMB million	Over 5 years RMB million
At December 31, 2014				
Borrowings	30,204	9,751	12,532	12,170
Derivative financial instruments	-	18	59	18
Obligations under finance leases	5,453	5,174	13,165	19,272
Trade, bills and other payables	14,901	-	-	-
Total	50,558	14,943	25,756	31,460

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## 3. FINANCIAL RISK MANAGEMENT (cont'd)

**(b) Capital risk management**

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

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

The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets. The debt ratios at December 31, 2015 and 2014 were as follows:

	2015 RMB million	2014 RMB million
Total liabilities	158,061	134,058
Total assets	197,992	165,829
Debt ratio	0.80	0.81

**(c) Fair value estimation of financial assets and liabilities**Financial instruments not measured at fair value

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

2015		2014	
Carrying amounts	Fair values	Carrying amounts	Fair values
RMB million	RMB million	RMB million	RMB million

Financial assets				
Deposits relating to aircraft held under operating leases included in other non-current assets	338	316	482	466
Financial liabilities				
Long-term bank borrowings	33,386	32,880	30,925	31,914
Obligations under finance leases	52,399	50,839	38,695	38,455
Total	85,785	83,719	69,620	70,369

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

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

#### Financial instruments measured at fair value

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit ratings. Derivative financial instruments, including forward currency contracts, interest rate swaps, cross currency swap are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the foreign exchange spot and forward rates and interest rate curves. As at December 31, 2015, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognized at fair value.

## 3. FINANCIAL RISK MANAGEMENT (cont'd)

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

Fair value hierarchy

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

Assets and liabilities measured at fair value:

As at December 31, 2015	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB million	RMB million	RMB million	RMB million
<b>Assets</b>				
Derivative financial instruments				
-Forward foreign exchange contracts (Note 39(b))	-	16	-	16
-Interest rate swaps (Note 39(a))	-	22	-	22
-Cross currency swap (Note 39(c))	-	7	-	7
Available-for-sale investments	317	-	-	317
<b>Total</b>	<b>317</b>	<b>45</b>	<b>-</b>	<b>362</b>
<b>Liabilities</b>				
Derivative financial instruments				
-Interest rate swaps (Note 39(a))	-	101	-	101

As at December 31, 2014

Fair value measurement using	Quoted prices	Significant observable	Significant unobservable
------------------------------	---------------	------------------------	--------------------------

	in active markets (Level 1) RMB million	inputs (Level 2) RMB million	inputs (Level 3) RMB million	Total RMB million
<b>Assets</b>				
Derivative financial instruments				
-Forward foreign exchange contracts (Note 39(b))	-	27	-	27
-Interest rate swaps (Note 39(a))	-	8	-	8
Available-for-sale investments	195	-	-	195
<b>Total</b>	<b>195</b>	<b>35</b>	<b>-</b>	<b>230</b>
<b>Liabilities</b>				
Derivative financial instruments				
-Interest rate swaps (Note 39(a))	-	95	-	95

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

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

## 3. FINANCIAL RISK MANAGEMENT (cont'd)

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

Assets and liabilities for which fair values are disclosed:

As at December 31, 2015	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB million	RMB million	RMB million	RMB million
Assets				
Deposits relating to aircraft held under operating leases included in other long-term assets	-	316	-	316
Liabilities				
Long-term bank borrowings	-	32,880	-	32,880
Obligations under finance leases	-	50,839	-	50,839
Total	-	83,719	-	83,719
As at December 31, 2014				
	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB million	RMB million	RMB million	RMB million
Assets				
Deposits relating to aircraft held under operating leases included in other long-term assets	-	482	-	482

Liabilities

Long-term bank borrowings	-	30,925	-	30,925
Obligations under finance leases	-	38,695	-	38,695
Total	-	69,620	-	69,620

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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 recognizes traffic revenues in accordance with the accounting policy stated in Note 2.4 to the financial statements. Unused tickets are recognized 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.

**(b) Frequent flyer program**

The Group operates frequent flyer programs that provide travel awards to program members based on accumulated miles. A portion of passengers' revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired. The deferral of revenue is estimated based on historical trends of redemptions, which is then used to project the expected utilization of these benefits fair values of the unredeemed miles. Different judgments or estimates could significantly affect the estimated provision for frequent flyer programs 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 a defined retirement benefit plan which provides eligible retirees with benefits including retirement subsidies, transportation allowance as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employee's service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2.4 to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and etc.. The discount rate is based on management's review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions.

Additional information regarding the retirement benefit plan is disclosed in Note 37 to the financial statements.

**(e) Deferred income tax**

In assessing the amount of deferred tax assets that need to be recognized in accordance with the accounting policy stated in Note 2.4 to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of deductible tax loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.



4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

**(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 realizable value. The net realizable value is estimated based on current market condition, historical experience and the Company's future operation plan for the aircraft and related spare parts. The net 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 overhaul 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 engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

**(h) Estimated impairment of property, plant and equipment and intangible assets**

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in Note 2.4 to the financial statements. The recoverable amount of the cash-generating unit has been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometers yield level, load factor, aircraft utilization rate and discount rates, etc.

**(i) Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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## 5 REVENUES

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

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Traffic revenues	85,076	82,589	80,531
- Passenger	78,585	75,261	72,928
- Cargo and mail	6,491	7,328	7,603
Tour operations income	3,491	3,047	3,169
Ground service income	2,546	2,168	2,253
Cargo handling and processing income	750	512	662
Commission income	78	94	93
Others	2,028	1,775	1,537
	93,969	90,185	88,245

Note:

Pursuant to the notice of the pilot programme for the transformation of transportation and certain modern service industries from BT to VAT (Cai Shui [2013] No. 37) 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 by all provinces/cities of China are subjected to VAT levied at rates of 11% or 6% from August 1, 2013, instead of BT.

## 6 OTHER OPERATING INCOME AND GAINS

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Subsidy income (Note 1)	4,131	3,627	2,369
Gain on disposal of property, plant and equipment	399	58	356
Gain on disposal of available-for-sale investments	33	-	-
Dividend income from available-for-sale investments	13	-	-

Others (Note 2)	693	-	-
	5,269	3,685	2,725

Note 1:

Subsidy income mainly represent (i) subsidies granted by various local governments based on certain amounts of tax paid; 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 recognized for the years ended December 31, 2015, 2014 and 2013.

Note 2:

Others mainly represent (i) compensation from ticket sales agents; (ii) gain on disposal of investments in a subsidiary; and (iii) compensation from transfer of the pilots.

## 7 SEGMENT INFORMATION

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

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

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

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

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

The segment results for the year ended December 31, 2015 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated* RMB million	Total RMB million
Reportable segment revenue from external customers	89,013	4,831	-	-	93,844
Inter-segment sales	555	468	(1,023 )	-	-
Reportable segment revenue	89,568	5,299	(1,023 )	-	93,844
Reportable segment profit before income tax	5,327	238	-	106	5,671

## Other segment information

Depreciation and amortization	10,727	128	-	-	10,855
Impairment charges	93	1	-	134	228
Interest income	69	13	(16	) -	66
Finance expenses	1,935	270	(16	) -	2,189
Capital expenditure	37,706	591	-	-	38,297

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## 7 SEGMENT INFORMATION (cont'd)

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

The segment results for the year ended December 31, 2014 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated* RMB million	Total RMB million
Reportable segment revenue from external customers	86,031	3,715	-	-	89,746
Inter-segment sales	-	343	(343 )	-	-
Reportable segment revenue	86,031	4,058	(343 )	-	89,746
Reportable segment profit before income tax	3,946	32	-	142	4,120
Other segment information					
Depreciation and amortization	9,604	131	-	-	9,735
Impairment charges	20	2	-	-	22
Interest income	61	27	-	-	88
Finance expenses	1,707	250	-	-	1,957
Capital expenditure	35,922	464	-	-	36,386

The segment results for the year ended December 31, 2013 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated* RMB million	Total RMB million
Reportable segment revenue from external customers	84,248	3,861	-	-	88,109
Inter-segment sales	-	258	(258 )	-	-
Reportable segment revenue	84,248	4,119	(258 )	-	88,109
Reportable segment profit before income tax	2,044	93	-	68	2,205

## Other segment information

Depreciation and amortization	8,470	244	-	-	8,714
Impairment charges/(reversal)	186	(2	)	-	184
Interest income	99	49	-	-	148
Finance expenses	1,368	180	-	-	1,548
Capital expenditure	24,756	310	-	-	25,066

The segment assets and liabilities as at December 31, 2015, 2014 were as follows:

	Airline transportation operations RMB million	Other segments RMB million	Eliminations RMB million	Unallocated* RMB million	Total RMB million
At December 31, 2015					
Reportable segment assets	189,408	12,045	(8,282	) 2,538	195,709
Reportable segment liabilities	156,041	10,260	(8,282	) 39	158,058
At December 31, 2014					
Reportable segment assets	156,786	8,679	(3,947	) 2,024	163,542
Reportable segment liabilities	130,696	7,306	(3,947	) -	134,055



## 7 SEGMENT INFORMATION (cont'd)

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

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

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

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

1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan, (collectively known as "Regional")) is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets excluding Regional is classified as international operations.

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

	2015 RMB million	2014 RMB million	2013 RMB million
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	61,222	60,531	59,563
Regional (Hong Kong, Macau and Taiwan)	3,569	3,799	3,911
International	29,178	25,855	24,771
Total	93,969	90,185	88,245

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

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

	Note	2015 RMB million	2014 RMB million	2013 RMB million
Revenue				
Reportable segment revenue		93,844	89,746	88,109
- Reclassification of business tax and expired sales in advance of carriage	(i)	125	521	236
- Adjustment of business combination under common control		-	(82	) (100
Consolidated revenue		93,969	90,185	88,245

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## SEGMENT INFORMATION (cont'd)

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

	Note	2015 RMB million	2014 RMB million	2013 RMB million
Profit before income tax				
Reportable segment profit		5,671	4,120	2,205
- Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	(4	) (4	) (3
- Adjustments of business combination under common control		-	(3	) 15
Consolidated profit before income tax		5,667	4,113	2,217

	Notes	2015 RMB million	2014 RMB million
Assets			
Reportable segment assets		195,709	163,542
- Differences in depreciation charges for aircraft and engines due to different depreciation lives	(ii)	41	45
- Difference in intangible asset arising from the acquisition of Shanghai Airlines	(iii)	2,242	2,242
Consolidated assets		197,992	165,829

	2015 RMB million	2014 RMB million
Liabilities		
Reportable segment liabilities	158,058	134,055
- Others	3	3
Consolidated liabilities	158,061	134,058

Notes:

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

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

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

8 GAIN ON FAIR VALUE CHANGES OF DERIVATIVE FINANCIAL INSTRUMENTS

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Interest rate swap contracts (Note 39(a))	6	11	16
Others	-	-	2
	6	11	18

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## WAGES, SALARIES AND BENEFITS

	Year ended December 31,		
	2015	2014	2013
	RMB million	RMB million	RMB million
Wages, salaries, bonus and allowances	12,917	10,853	10,489
Employee welfare and benefits	436	238	363
Pension and medical insurance (Note 37(a) & (b))	2,042	2,025	1,483
Post-retirement benefits (Note 37(c))	-	(2,906 )	183
Staff housing fund (Note (a))	817	826	718
Staff housing allowances (Note (b))	247	234	218
	16,459	11,270	13,454

Notes:

## (a) Staff housing fund

In accordance with the relevant PRC housing regulations, the Group is required to contribute to the state-sponsored housing fund for its employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits.

## (b) Staff housing allowances

The Group also provides staff housing allowances in cash to eligible employees. The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation or retirement, his or her entitlement would cease and any unpaid entitlement related to past service up to the date of resignation or retirement would be paid.

## (c) Emoluments of directors and supervisors

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Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, together with the remuneration of supervisors, is as follows:

	2015 Salaries and allowances RMB'000	Bonus RMB'000	Total RMB'000
Executive Directors			
Liu Shaoyong*	-	-	-
Ma Xulun	401	-	401
Xu Zhao*	-	-	-
Gu Jiadan*	-	-	-
Li Yangmin	365	-	365
Tang Bing	358	-	358
Tian Liuwen****	419	-	419
Independent non-executive Directors			
Liu Keya**	72	-	72
Ji Weidong*****	-	-	-
Shao Ruiqing*****	60	-	60
Li Ruoshan	120	-	120
Ma Weihua	120	-	120
Supervisors			
Yu Faming*	-	-	-
Xi Sheng*	-	-	-
Xu Haihua****	298	-	298
Feng Jinxiong	610	-	610
Ba Shengji*	-	-	-
Total	2,823	-	2,823

## 9 WAGES, SALARIES AND BENEFITS (cont'd)

## (c) Emoluments of directors and supervisors (cont'd)

	2014		
	Salaries	Bonus	Total
	and		
	allowances		
	RMB'000	RMB'000	RMB'000
Executive Directors			
Liu Shaoyong*	-	-	-
Ma Xulun	745	-	745
Xu Zhao*	-	-	-
Gu Jiadan*	-	-	-
Li Yangmin	669	-	669
Tang Bing	632	-	632
Independent non-executive Directors			
Liu Keya	120	-	120
Ji Weidong	120	-	120
Shao Ruiqing***	-	-	-
Li Ruoshan	120	-	120
Ma Weihua	120	-	120
Supervisors			
Yu Faming*	-	-	-
Xi Sheng*	-	-	-
Feng Jinxiong	436	-	436
Yan Taisheng***	175	-	175
Ba Shengji*	-	-	-
Total	3,137	-	3,137
2013			
	Salaries	Bonus	Total
	and		
	Allowances		
	RMB'000	RMB'000	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

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

\*\*Mr. Liu Keya retired during the year ended December 31, 2015.

\*\*\*These directors and supervisors of the Company retired or resigned during the year ended December 31, 2014.

\*\*\*\*These directors and supervisors of the Company were newly appointed during the year ended December 31, 2015.



## (c) Emoluments of directors and supervisors (cont'd)

\*\*\*\*\* Mr. Ji Weidong has filed his resignation during the year ended December 31, 2015 but will fulfil his responsibility until new director being appointed by the board.

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

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

During the years ended December 31, 2015, 2014 and 2013, no directors and supervisors waived their emoluments

## (d) Five highest paid individuals

None of the Company's directors and supervisors was among the five highest paid individuals in the Group for the year ended December 31, 2015 (2014 and 2013: Nil). The emoluments payable to the five highest paid individuals were as follows:

	2015	2014	2013
	RMB'000	RMB'000	RMB'000
Wages, salaries, bonus and allowances	8,104	7,817	7,393

The emoluments fell within the following bands:

	Number of individuals		
	2015	2014	2013
Nil to HK\$1,000,000	-	-	-
HK\$1,000,001 to HK\$1,500,000	-	-	-
HK\$1,500,001 to HK\$2,000,000	5	4	4

HK\$2,000,001 to HK\$2,500,000 - 1 1  
5 5 5

During the year ended December 31, 2015, no emoluments were paid by the Group to the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office (2014 and 2013: Nil).

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## IMPAIRMENT CHARGES

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Provision for/(reversal of) impairment charge of flight equipment spare parts (Note (a))	88	9	(20 )
Impairment charge on assets classified as held for sale (Note (b))	-	-	50
Impairment charge on interests in associates	33	-	-
Impairment charge on available-for-sale investments	100	-	27
Reversal of impairment charge of trade and other receivables	(41 )	-	-
Impairment charges on property, plant and equipment	48	3	15
Impairment charges on other long-term assets (Note (c))	-	-	114
	228	12	186

## Note:

After acquisition of Shanghai Airlines Co., Ltd. in 2010, the Company has reviewed the composition of its aircraft fleet, aiming to simplify the models of aircraft and maximize operation efficiencies. In 2012, the Company has defined the main model of aircraft for future operation and signed series of contracts to dispose other models of (a) aircraft between 2014 and 2016. As a consequence, the Company has reassessed the provision for the flight equipment spare parts in relation to the main models of aircraft and also the spare parts in relation to the aircraft to be disposed, and reversed provision of RMB20 million during the year ended December 31, 2013 in accordance with the reassessment results.

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 recognized as assets classified as held for sale at (b) December 31, 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 16).

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

cash-generating-unit (“CGU”).

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## 11 OPERATING PROFIT

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

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Amortization of intangible assets	85	69	57
Depreciation of property, plant and equipment			
– owned	5,350	5,688	5,914
– leased (finance leases)	4,972	3,368	2,203
Depreciation of investment properties	4	-	-
Amortization of long-term deferred assets included in other non-current assets	388	555	491
Amortization of lease prepayments	60	58	52
Consumption of flight equipment spare parts	974	712	755
Auditors' remuneration	17	15	15

## 12 FINANCE INCOME

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Exchange gains, net (Note)	-	-	1,977
Interest income	66	88	148
	66	88	2,125

Note:

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

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Interest on bank borrowings	1,727	1,257	1,191
Interest relating to obligations under finance leases and post-retirement benefits	867	722	335
Interest on bonds and debentures	483	509	339
Interest relating to bills payable	128	92	75
	3,205	2,580	1,940
Exchange losses, net (Note (b))	4,987	203	-
Less: amounts capitalized into advanced payments on acquisition of aircraft (Note (a))	(1,014 )	(606 )	(385 )
amounts capitalized into construction in progress (Note (a))	(2 )	(17 )	(6 )
	7,176	2,160	1,549

Note:

(a) The average interest rate used for interest capitalization was 3.09% per annum for the year ended December 31, 2015 (2014: 2.69%; 2013: 2.75%).

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

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## INCOME TAX EXPENSE

Income tax charged to profit or loss was as follows:

	Year ended December 31,		
	2015	2014	2013
	RMB million	RMB million	RMB million
PRC income tax	737	484	347
Deferred taxation (Note 38)	(113 )	89	(223 )
	624	573	124

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

The Company and subsidiaries except for CEA Yunnan, the Company’s branches located in Sichuan, Gansu and Xibei and those incorporated in Hong Kong, which are subject to Hong Kong profits tax rate of 16.5% (2014: 16.5%; 2013:16.5%), are generally subject to the PRC standard corporate income tax rate of 25% (2014: 25%; 2013: 25%).

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

	Year ended December 31,		
	2015	2014	2013
	RMB million	RMB million	RMB million
Profit before income tax	5,667	4,113	2,217
Tax calculated at the tax rate of 25% (2014: 25%; 2013:25%)	1,417	1,028	554
Lower tax rates enacted by local authority	(156 )	(41 )	(42 )

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Share of results of associates and joint ventures	(38 )	(31 )	(16 )
Expenses not deductible for tax	104	88	19
Effect in respect of post-retirement benefit plan	-	(560 )	-
Utilization of previously unrecognized tax losses	(1 )	-	(327 )
Unrecognized tax losses for the year	20	86	175
Utilization of/unrecognized deductible temporary differences	(722 )	3	(239 )
Tax charge	624	573	124

The Group operates international flights to overseas destinations. There was no material overseas taxation for the years ended December 31, 2015, 2014 and 2013, as there are avoidance of double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

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EARNINGS PER SHARE

The calculation of basic earnings per share was based on the profit attributable to equity holders of the Company of RMB4,537 million (2014: RMB3,410 million; 2013: RMB2,373 million) and the weighted average number of shares of 12,818,509,000 (2014: 12,674,269,000; 2013: 12,091,881,000) in issue during the year ended December 31, 2015. The Company had no potentially dilutive options or other instruments relating to the ordinary shares in issue during the years ended December 31, 2015, 2014 and 2013.

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## 16 ASSETS CLASSIFIED AS HELD FOR SALE

The Group entered into several agreements with third parties to dispose certain aircraft and related engines. The aircraft and engines with an aggregate carrying amount of RMB594 million (2014: RMB4,330 million) have been recognized as assets classified as held for sale by the Group as at December 31, 2015, which are stated at the lower of their carrying amounts and their fair value less cost to sell.

## 17 INTANGIBLE ASSETS

	Goodwill (Note) RMB million	Computer software RMB million	Total RMB million
Cost			
At January 1, 2014	11,270	495	11,765
Additions	-	79	79
At December 31, 2014	11,270	574	11,844
Additions	-	109	109
Disposals	-	(4	) (4
At December 31, 2015	11,270	679	11,949
Accumulated amortization			
At January 1, 2014	-	275	275
Charge for the year	-	69	69
At December 31, 2014	-	344	344
Charge for the year	-	85	85
Disposals	-	(2	) (2
At December 31, 2015	-	427	427
Net book amount			
At December 31, 2014	11,270	230	11,500
At December 31, 2015	11,270	252	11,522

Note:



The balance represents goodwill arising from the acquisition of Shanghai Airlines. Goodwill is attributable to strengthening the competitiveness of the Group's airline transportation operations, attaining synergy through integration of the resources and providing the evolution of Shanghai international air transportation center. For the purpose of impairment assessment, goodwill was allocated to the CGU that the Group operates and benefits from the acquisition.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on a financial budget approved by senior management. The discount rate applied to the cash flow projections is 13% (2014: 13%). The growth rate used to extrapolate the cash flows of the above cash-generating unit beyond the five-year period is 3% (2014: 5%), which includes the effect of inflation. No impairment for the goodwill was required based on the value-in-use calculation as at the reporting date.

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## 18 PROPERTY, PLANT AND EQUIPMENT

	<b>Aircraft, engines and flight equipment Held under finance leases</b>		Buildings	Other property, plant and equipment		Construction in progress	Total
	Owned						
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
<b>Cost</b>							
At January 1, 2015	71,456	67,571	8,236	7,001	2,116		156,380
Transfer from construction in progress	-	-	112	269	(381)	)	-
Transfer from advanced payments on acquisition of aircraft (Note 21)	9,615	15,224	-	-	-		24,839
Additions	3,770	6,752	57	413	929		11,921
Transfer to assets classified as held for sale	(783)	)	-	-	-		(783)
Transfer to investment properties (Note 19)	-	-	(344)	)	-		(344)
Transfer to other non-current assets	-	-	-	-	(881)	)	(881)
Disposals	(3,656)	)	(401)	)	(68)	)	(197)
At December 31, 2015	80,402	89,146	7,993	7,486	1,771		186,798
<b>Accumulated depreciation</b>							
At January 1, 2015	26,804	13,253	2,013	4,430	-		46,500
Charge for the year	4,565	5,061	325	371	-		10,322
Transfer to assets classified as held for sale	(292)	)	-	-	-		(292)
Transfer to investment properties (Note 19)	-	-	(46)	)	-		(46)
Disposals	(2,882)	)	(393)	)	(26)	)	(104)
At December 31, 2015	28,195	17,921	2,266	4,697	-		53,079
<b>Impairment</b>							
At January 1, 2015	326	108	-	7	-		441
Charge for the year	48	-	-	-	-		48
Disposals	(12)	)	-	-	-		(12)
At December 31, 2015	362	108	-	7	-		477
<b>Net book amount</b>							
At December 31, 2015	51,845	71,117	5,727	2,782	1,771		133,242
At January 1, 2015	44,326	54,210	6,223	2,564	2,116		109,439

During the year, the Group recognized an impairment loss of approximately RMB48 million relating to aircraft, engines and flight equipment (2014: RMB3 million). The recoverable amounts of these impaired aircraft, engines and flight equipment are determined at the higher of their fair value less costs to sell and value in use.

As at December 31, 2015, certain aircraft and buildings owned by the Group with an aggregate net carrying amount of approximately RMB29,147 million (2014: approximately RMB23,117 million) were pledged as collateral under certain loan arrangements (Note 34).

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## 18 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	<b>Aircraft, engines and flight equipment</b>		Buildings	Other property, <b>plant and equipment</b>		Construction in progress	Total
	Owned	<b>Held under finance leases</b>					
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
<b>Cost</b>							
At January 1, 2014	76,671	47,668	7,486	6,435	2,078		140,338
Transfer from construction in progress	19	-	814	249	(1,082)		-
Transfer from advanced payments on acquisition of aircraft (Note 21)	4,267	12,442	-	-	-		16,709
Additions	2,262	11,029	5	545	1,293		15,134
Transfer to assets classified as held for sale	(5,634)	(2,706)	-	-	-		(8,340)
Transfer to other non-current assets	-	-	-	-	(138)		(138)
Disposals	(6,129)	(862)	(69)	(228)	(35)		(7,323)
At December 31, 2014	71,456	67,571	8,236	7,001	2,116		156,380
<b>Accumulated depreciation</b>							
At January 1, 2014	28,858	11,862	1,769	4,130	-		46,619
Charge for the year	4,919	3,368	277	492	-		9,056
Transfer to assets classified as held for sale	(2,691)	(1,319)	-	-	-		(4,010)
Disposals	(4,282)	(658)	(33)	(192)	-		(5,165)
At December 31, 2014	26,804	13,253	2,013	4,430	-		46,500
<b>Impairment</b>							
At January 1, 2014	798	108	-	8	22		936
Charge for the year	3	-	-	-	-		3
Disposals	(475)	-	-	(1)	(22)		(498)
At December 31, 2014	326	108	-	7	-		441
<b>Net book amount</b>							
At December 31, 2014	44,326	54,210	6,223	2,564	2,116		109,439
At January 1, 2014	47,015	35,698	5,717	2,297	2,056		92,783

## 19 INVESTMENT PROPERTIES

	2015 RMB million
Cost	
At January 1, 2015	-
Transfer from property, plant and equipment (Note 18)	344
At December 31, 2015	344
Accumulated depreciation	
At January 1, 2015	-
Charge for the year	(4 )
Transfer from property, plant and equipment (Note 18)	(46 )
At December 31, 2015	(50 )
Net book amount	
At December 31, 2015	294

As of December 31, 2015, the fair value of the investment properties was RMB497,462,000 according to a valuation performed by an independent professionally qualified valuer.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

Not measured at fair value but fair value is disclosed:	Fair value measurement as at December 31, 2015 using			Total
	Quoted prices in active markets (Level 1) RMB million	Significant observable inputs (Level 2) RMB million	Significant unobservable inputs (Level 3) RMB million	
Buildings	-	-	497	497

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2014: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Valuation techniques	Significant unobservable inputs	Range or weighted average RMB
		2015
Buildings Discounted cash flow method	Estimated rental value (per s.q.m. and per month)	10.65 to 154.43
	Rent growth (p.a.)	2% to 6%
	Long term vacancy rate	0% to 5%
	Discount rate	4% to 6%
Buildings Market comparable method	Price per s.q.m.	14,699 to 37,000

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## 20 LEASE PREPAYMENTS

	2015 RMB million	2014 RMB million
Cost		
At January 1	2,686	2,577
Additions	82	109
Disposals	(144 )	-
At December 31	2,624	2,686
Accumulated amortisation		
At January 1	480	422
Charge for the year	60	58
Disposals	(10 )	-
At December 31	530	480
Net book amount		
At December 31	2,094	2,206

Lease prepayments represent unamortized prepayments for land use rights.

## 21 ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

	2015 RMB million	2014 RMB million
At January 1	20,260	16,296
Additions	24,772	20,067
Interest capitalised (Note 13)	1,014	606
Transfer to property, plant and equipment (Note 18)	(24,839 )	(16,709 )
At December 31	21,207	20,260

## 22 INVESTMENTS IN ASSOCIATES

	2015 RMB million	2014 RMB million
--	---------------------	---------------------

Unlisted investments, at cost	1,266	853
Share of net assets	277	233
	1,543	1,086

The movements in investments in associates were as follows:

	2015 RMB million	2014 RMB million
At January 1	1,086	1,064
Additions	413	18
Share of results of associates	126	91
Share of revaluation on available-for-sale investments held by an associate	7	(1 )
Disposal of associates	-	(18 )
Provision for impairment	(33 )	-
Dividend received during the year	(56 )	(68 )
At December 31	1,543	1,086

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## 22 INVESTMENTS IN ASSOCIATES (cont'd)

Particulars of the principal associates, which are limited liability companies, are as follows:

Company name	Place of establishment and operation and date of establishment	Registered capital		Attributable equity interest		Principal activities
		2015 Million	2014 Million	2015	2014	
Eastern Air Group Finance Co., Ltd. (“Eastern Air Finance Company”)	PRC December 6, 1995	RMB 2,000	RMB 500	25 %	25 %	Provision of financial services to group companies of CEA Holding
China Eastern Air Catering Investment Co., Ltd.	PRC November 17, 2003	RMB 350	RMB 350	45 %	45 %	Provision of air catering services
Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd. (“Shanghai P&W”) (Note)	PRC March 28, 2008	USD 40	USD 40	51 %	51 %	Provision of maintenance of aircraft, engine and other related components maintenance services
New Shanghai International Tower Co., Ltd.	PRC November 17, 1992	RMB 167	RMB 167	20 %	20 %	Provision of property development and management
Eastern Aviation Import & Export Co., Ltd. (“Eastern Import & Export”)	PRC June 9, 1993	RMB 80	RMB 80	45 %	45 %	Provision of aviation equipment, spare parts purchase
Eastern Aviation Advertising Service Co., Ltd. (“Eastern Advertising”)	PRC March 4, 1986	RMB 200	RMB 200	45 %	45 %	Provision of aviation advertising agency services
Shanghai Collins Aviation Maintenance Service Co., Ltd. (“Collins Aviation”)	PRC September 27, 2002	USD 7	USD 7	35 %	35 %	Provision of airline electronic product maintenance services

Jetstar Hong Kong Airways Ltd. (“Jetstar Hong Kong”)	Hong Kong September 4, 2012	USD 198	USD 198	33 %	33 %	Provision of airline services
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## Note:

In 2008, the Company entered into an agreement with United Technologies International Corporation (“Technologies International”) to establish Shanghai P&W. Shanghai P&W has registered capital of approximately USD40 million in which the Company holds a 51% interest. According to the shareholder’s agreement, Technologies International has the power to govern the financial and operating policies and in this respect the Company accounts for Shanghai P&W as an associate.

The following table illustrates the aggregate financial information of the Group’s associates that were not individually material:

	2015 RMB million	2014 RMB million
Share of the associates’ profit for the year	126	91
Share of the associates’ other comprehensive income	7	(1 )
Share of the associates’ total comprehensive income	133	90
Aggregate carrying amount of the Group’s interests in the associates	1,543	1,086

## 23 INVESTMENTS IN JOINT VENTURES

	2015 RMB million	2014 RMB million
Unlisted investments, at cost	352	352
Share of net assets	166	153
	518	505

The movements in investments in joint ventures were as follows:

	2015 RMB million	2014 RMB million
At January 1	505	433
Addition through the acquisition of a joint venture	-	58
Share of results	26	36
Dividend received during the year	(13)	(22)
At December 31	518	505

Particulars of the principal joint ventures, which are limited liability companies, are as follows:

Company name	Place of establishment and operation and date of establishment	Paid-up capital		Attributable equity interest		Principal activities
		2015 <i>Million</i>	2014 <i>Million</i>	2015	2014	
Shanghai Technologies Aerospace Co., Ltd. (“Technologies Aerospace”) (Note)	PRC September 28, 2004	USD 73	USD 73	51 %	51 %	Provision of repair and maintenance services
Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. (“Wheels & Brakes”)	PRC December 28, 1995	USD 2	USD 2	40 %	40 %	Provision of spare parts repair and maintenance services

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Eastern China Kaiya System Integration Co., Ltd. (“China Kaiya”)	PRC May 21, 1999	RMB 10	RMB 10	41 %	41 %	Provision of computer systems development and maintenance services
CAE Melbourne Flight Training Pty Ltd.	Australia March 9, 2007	AUD 11	AUD 11	50 %	50 %	Provision of flight training services
Shanghai Hute Aviation Technology Co., Ltd. (“Shanghai Hute”)	PRC April 9, 2003	RMB 30	RMB 30	50 %	50 %	Provision of equipment maintenance services

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## 23 INVESTMENTS IN JOINT VENTURES (cont'd)

Note:

Under a joint venture agreement with a joint venture partner of Technologies Aerospace dated March 10, 2003, the Company has agreed to share the control over the economic activities of Technologies Aerospace. Any strategic financial and operating decisions relating to the activities of Technologies Aerospace require the unanimous consent of the Company and the joint venture partner.

The following table illustrates the aggregate financial information of the Group's joint ventures that were not individually material:

	2015 RMB million	2014 RMB million
Share of the joint ventures' profit for the year	26	36
Share of the joint ventures' total comprehensive income	26	36
Aggregate carrying amount of the Group's interests in the joint ventures	518	505

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## AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB million	2014 RMB million
Listed equity investments, at fair value	317	195
Unlisted equity investments, at cost (Note)	135	238
	452	433

During the year, the gross gain in respect of the Group's available-for-sale investments recognized in other comprehensive income amounted to RMB122 million (2014: RMB18 million).

The above investments consist of investments in equity securities which were designated as available-for-sale investments and have no fixed maturity date or coupon rate.

Note:

As at December 31, 2015, certain unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

## 25 OTHER NON-CURRENT ASSETS

	December 31,	
	2015	2014
	RMB million	RMB million
Deposits relating to aircraft held under operating leases	338	482
Deferred pilot recruitment costs	1,243	1,140
Rebate receivables on aircraft acquisitions	974	132
Rental prepayment	450	-
Prepayment for acquisition of property, plant and equipment	156	-
Other long term assets	593	203
	3,754	1,957

## 26 FLIGHT EQUIPMENT SPARE PARTS

	December 31,	
	2015	2014
	RMB million	RMB million
Flight equipment spare parts	2,597	2,924
Less: provision for spare parts	(541 )	(665 )
	2,056	2,259

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## FLIGHT EQUIPMENT SPARE PARTS (cont'd)

Movements in the Group's provision for impairment of flight equipment spare parts were as follows:

	December 31,	
	2015	2014
	RMB million	RMB million
At January 1	665	657
Accrual (Note 10)	88	9
Provision written off in relation to disposal of spare parts	(212 )	(1 )
At December 31	541	665

## 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:

	December 31,	
	2015	2014
	RMB million	RMB million
Within 90 days	2,608	1,539
91 to 180 days	105	1,774
181 to 365 days	90	456
Over 365 days	280	299
	3,083	4,068
Provision for impairment of receivables	(216 )	(206 )
Trade receivables	2,867	3,862

Balances with related parties included in trade receivables are summarized in Note 47(c)(i).

The carrying amounts of the trade receivables approximated to their fair values.

Trade receivables that were neither overdue nor impaired relate to a large number of independent sales agents for whom there was no recent history of default.

As at December 31, 2015, trade receivables of RMB267 million (2014: RMB262 million) were past due but not impaired. These relate to a number of independent sales agents for whom there was no recent history of default. The Group holds cash deposits of RMB540 million (2014: RMB462 million) from these agents. The aging analysis of these trade receivables was as follows:

	December 31,	
	2015	2014
	RMB million	RMB million
Past due:		
Within 90 days	213	161
91 to 180 days	28	40
181 to 365 days	26	61
	267	262

As at December 31, 2015, trade receivables of RMB42 million (2014: RMB155 million) were impaired and fully provided for. The remaining impaired trade receivables of RMB260 million relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

Movements in the Group's provision for impairment of trade receivables were as follows:

	2015	2014
	RMB million	RMB million
At January 1	206	198
Receivables written off during the year as uncollectible	(2	) (1
Impairment losses recognized	12	9
At December 31	216	206



## 27 TRADE RECEIVABLES (cont'd)

The net impacts of creation and release of provisions for impaired receivables have been included in “Reversal of impairment charge of trade and other receivables” in profit or loss (Note 10). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The carrying amounts of the Group’s trade receivables were denominated in the following currencies:

	December 31,	
	2015	2014
	<i>RMB million</i>	<i>RMB million</i>
Currency		
Renminbi	2,866	3,844
Japanese Yen	5	7
US Dollars	52	61
Euro	92	97
Hong Kong Dollars	-	2
Other currencies	68	57
	3,083	4,068

The maximum exposure to credit risk at the reporting date was the carrying amount of receivables shown above.

## 28 PREPAYMENTS AND OTHER RECEIVABLES

	December 31,	
	2015	2014
	<i>RMB million</i>	<i>RMB million</i>
VAT recoverable	2,226	1,750
Prepaid corporate income tax	413	-
Advance to suppliers	379	540
Prepaid aircraft operating lease rentals	346	333
Dividend receivable	22	33
Rebate receivables on aircraft acquisitions	1,610	1,253
Rental deposits	278	271
Amounts due from related parties (Note 47(c)(i))	139	169
Deposits relating to aircraft held under operating leases	145	98
Others	3,127	2,239

Subtotal	8,685	6,686
Provision for impairment of other receivables	(239	) (292
	8,446	6,394

During the year, the reversal of impairment charge in respect of recovery of rental deposits from previous years amounted to RMB53 million (2014: Nil).

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## 29 RESTRICTED BANK DEPOSITS AND SHORT-TERM BANK DEPOSITS

	December 31,	
	2015	2014
	RMB million	RMB million
Bank deposits with original maturity over a year	2	4
Restricted bank deposits	33	34
	35	38

## Note:

As at December 31, 2015, the deposits bore effective interest rates ranging from 0.35% to 3.50% per annum (2014: 0.35% to 3.50%).

The carrying amounts of the Group's restricted bank deposits and short-term bank deposits were denominated in the following currency:

	December 31,	
	2015	2014
	RMB million	RMB million
Renminbi	35	38

## 30 CASH AND CASH EQUIVALENTS

The carrying amounts of the Group's cash and cash equivalents were denominated in the following currencies:

	December 31,	
	2015	2014
	RMB million	RMB million
Renminbi	1,013	711
US Dollars	7,755	490
Euro	56	45
Japanese Yen	36	16
Hong Kong Dollars	39	23

Other currencies	181	70
	9,080	1,355

## 31 TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables was as follows:

	December 31,	
	2015	2014
	RMB million	RMB million
Within 90 days	2,060	764
91 to 180 days	348	309
181 to 365 days	461	240
1 to 2 years	414	420
Over 2 years	429	350
	3,712	2,083

As at December 31, 2015, trade and bills payable balances included amounts due to related parties of RMB897 million (2014: RMB186 million) (Note 47(c)(ii)).

As at December 31, 2015, bills payable amounted to RMB800 million (2014: Nil).

## 32 OTHER PAYABLES AND ACCRUALS

	December 31,	
	2015	2014
	RMB million	RMB million
Salaries, wages and benefits	3,602	2,826
Take-off and landing charges	2,302	1,661
Fuel cost	878	1,879
Expenses related to aircraft overhaul conducted	1,703	1,807
Advance from customers	1,059	841
Duties and levies payable	2,077	1,617
Other accrued operating expenses	2,255	3,777
Deposits received from ticket sales agents	841	867
Current portion of other long-term liabilities (Note 36)	515	585
Staff housing allowance	420	315
Amounts due to related parties (Note 47(c)(ii))	1,305	1,483
Current portion of post-retirement benefit obligations (Note 37(c))	181	210
Others	1,919	1,347
	19,057	19,215

## 33 OBLIGATIONS UNDER FINANCE LEASES

As at December 31, 2015, the Group had 213 aircrafts (2014: 167 aircrafts) under finance leases. Under the terms of the leases, the Group has the option to purchase, at or near the end of the lease terms, certain aircraft at either fair market value or a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are principally denominated in US Dollars.

The future minimum lease payments (including interest), and the present value of the minimum lease payments under finance leases were as follows:

	Minimum lease payments 2015 RMB million	Present values of minimum lease payments 2015 RMB million	Minimum lease payments 2014 RMB million	Present values of minimum lease payments 2014 RMB million
Within one year	7,377	6,109	5,453	4,596
In the second year	7,101	5,942	5,174	4,411
In the third to fifth years, inclusive	19,183	16,679	13,165	11,482

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After the fifth year	25,167	23,669	19,272	18,206
Total	58,828	52,399	43,064	38,695
Less: amount repayable within one year	(7,377 )	(6,109 )	(5,453 )	(4,596 )
Long-term portion	51,451	46,290	37,611	34,099

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## 34 BORROWINGS

	December 31,	
	2015	2014
	RMB million	RMB million
Non-current		
Long-term bank borrowings		
– secured (Note (a))	14,766	14,725
– unsecured	5,642	5,503
Guaranteed bonds (Note (b))	8,090	10,285
	28,498	30,513
Current		
Current portion of long-term bank borrowings		
– secured (Note (a))	2,609	2,254
– unsecured	10,369	8,443
Short-term bank borrowings		
– unsecured	7,537	13,979
Short-term debentures (Note (c))	15,500	4,000
Guaranteed bonds (Note (b))	2,199	-
	38,214	28,676
Total borrowings	66,712	59,189

The borrowings are repayable as follows:

Within one year	38,214	28,676
In the second year	10,306	8,801
In the third to fifth years inclusive	8,224	10,868
After the fifth year	9,968	10,844
Total borrowings	66,712	59,189

Notes:

(a) As at December 31, 2015, the secured bank borrowings of the Group were pledged by the related aircraft and buildings with an aggregate carrying amount of RMB29,147 million (2014: RMB23,117 million) (Note 18).

(b)

On March 18, 2013, the Company issued ten-year guaranteed bonds with a principal amount of RMB4.8 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 5.05% per annum, which are payable annually. The principal of the bonds will mature and be repayable on March 18, 2023. CEA Holding has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds (Note 47(d)).

On June 5, 2013, Eastern Air Overseas issued three-year guaranteed bonds with a principal amount of RMB2.2 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 3.875% per annum, which are payable semi-annually. The principal of the bonds will mature and become repayable on June 5, 2016. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

On March 6, 2014, Eastern Air Overseas issued three-year guaranteed bonds with a principal amount of RMB2.5 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 4.80% per annum, which are payable semi-annually. The principal of the bonds will mature and become repayable on March 13, 2017. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.

On May 14, 2014, Eastern Air Overseas issued three-year guaranteed bonds with a principal amount of RMB0.8 billion, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 4.80% per annum, which are payable semi-annually. The principal of the bonds will mature and become repayable on May 14, 2017. The Company has unconditionally and irrevocably guaranteed the due payment and performance of the above bonds.



## 34BORROWINGS (cont'd)

(c) On June 26, 2015, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 270 days. The debentures bear interest at the rate of 3.50% per annum.

On September 25, 2015, the Company issued short-term debentures with a principal of RMB2.5 billion and maturity of 270 days. The debentures bear interest at the rate of 3.30% per annum.

On October 27, 2015, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 270 days. The debentures bear interest at the rate of 3.00% per annum.

On November 20, 2015, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 270 days. The debentures bear interest at the rate of 3.10% per annum.

On November 27, 2015, the Company issued short-term debentures with a principal of RMB2 billion and maturity of 180 days. The debentures bear interest at the rate of 3.00% per annum.

On December 28, 2015, the Company issued short-term debentures with a principal of RMB3 billion and maturity of 270 days. The debentures bear interest at the rate of 2.87% per annum.

On December 30, 2015, the Company issued short-term debentures with a principal of RMB1 billion and maturity of 270 days. The debentures bear interest at the rate of 2.83% per annum.

The terms of the long-term borrowings were summarized as follows:

Interest rate and final maturities		2015 RMB million	2014 RMB million
Long-term bank borrowings			
RMB denominated	interest rates ranging from 5.75% to 5.90% with final maturities through 2023 (2014: 5.54% to 5.99%)	280	420
USD denominated	interest rates ranging from 6 months libor +0.50% to 6 months libor +3.75% with final maturities through 2025 (2014: 6 months libor +0.55% to 6 months libor +5.30%)	33,106	30,505

## Guaranteed bonds

RMB denominated	interest rates ranging from 3.88% to 5.05% with final maturities through 2023 (2014: 3.88% to 5.05%)	10,289	10,285
Total long-term borrowings		43,675	41,210

Short-term borrowings of the Group are repayable within one year. As at December 31, 2015, the interest rates relating to such borrowings ranged from 1.49% to 3.48% per annum (2014: 1.01% to 5.35% per annum).

The carrying amounts of the borrowings were denominated in the following currencies:

	December 31,	
	2015	2014
	RMB million	RMB million
Renminbi	29,769	16,205
US Dollars	36,943	42,984
	66,712	59,189

## 35 PROVISION FOR RETURN CONDITION CHECKS FOR AIRCRAFT UNDER OPERATING LEASES

	December 31,	
	2015	2014
	RMB million	RMB million
At January 1	3,884	4,217
Accrual	968	1,122
Utilisation	(1,349)	(1,455)
At December 31	3,503	3,884
Less: current portion	(1,281)	(1,267)
Long-term portion	2,222	2,617

In respect of aircraft and engines under operating leases, the Group has obligations to fulfill certain return conditions under the leases. The balance as at December 31, 2015 and 2014 represented the provision for the estimated cost of these return condition checks which is made on a straight-line basis over the term of the leases.

## 36 OTHER LONG-TERM LIABILITIES

	December 31,	
	2015	2014
	RMB million	RMB million
Fair value of unredeemed points awarded under the Group's frequent flyer program	1,739	1,720
Long-term duties and levies payable relating to finance leases	1,713	1,120
Other long-term payables	1,053	501
	4,505	3,341
Less: current portion included in other payables and accrued expenses (Note 32)	(515)	(585)
Long-term portion	3,990	2,756

## 37 PENSION, MEDICAL INSURANCE AND POST-RETIREMENT BENEFITS

(a) Pension

The group companies participate in defined contribution retirement schemes organized by municipal governments of various provinces in which the group companies operate. Substantially all of the Group's PRC employees are eligible to participate in this defined contribution retirement schemes. In addition, the group companies implemented an additional defined contribution retirement pension scheme for eligible employees in 2015. For the year ended December 31, 2015, the Group's pension costs charged to profit or loss amounted to RMB1,479 million (2014: RMB1,492 million; 2013: RMB1,005 million).

(b)

Medical insurance

Majority of the Group's PRC employees participate in the medical insurance schemes organized by municipal governments. For the year ended December 31, 2015, the Group's medical insurance contributions charged to profit or loss amounted to RMB563 million (2014: RMB533 million; 2013: RMB478 million).

(c)

Post-retirement benefits

In addition to the above schemes, the Group provides eligible retirees with other post-retirement benefits, including retirement subsidies, transportation allowance as well as other welfare. The expected cost of providing these post-retirement benefits is actuarially determined and recognized by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and etc.

The plan is exposed to interest rate risk and the risk of changes in the life expectancy for pensioners.

The most recent actuarial valuation of the post-retirement benefit obligations was carried out at December 31, 2015 with assistance from a third party consultant using the projected unit credit actuarial valuation method.

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## 37PENSION, MEDICAL INSURANCE AND POST-RETIREMENT BENEFITS (cont'd)

The post-retirement benefit obligations recognized in the consolidated statement of financial position are as follows:

	2015 RMB million	2014 RMB million
Post-retirement benefit obligations	2,750	3,032
Less: current portion	(181 )	(210 )
Long-term portion	2,569	2,822

The principal actuarial assumptions utilized as at the end of the reporting period are as follows:

	2015	2014
Discount rates for post-retirement benefits	3.30 %	3.40%-4.20 %
Mortality rate	China Insurance Life Mortality Table (2000-2003). CL3 for Male and CL4 for Female	China Insurance Life Mortality Table (2000-2003). CL3 for Male and CL4 for Female
Annual increase rate of medical expenses due to age	2.50 %	2.50 %
Annual increase rate of post-retirement medical expenses	6.50 %	7.00 %
Inflation rate of pension benefits	2.50 %	3.00 %

A quantitative sensitivity analysis for significant assumptions at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in post-retirement benefit obligation RMB million	Decrease in rate %	Increase/ (decrease) in post-retirement benefit obligation RMB million
2015				
Discount rate for post-retirement benefits	0.25	(86 )	0.25	90
Annual increase rate of pension benefits	1.00	292	1.00	(247 )
Annual increase rate of medical expenses	1.00	41	1.00	(34 )

2014

Discount rate for post-retirement benefits	0.25	(88	)	0.25	92
Annual increase rate of pension benefits	1.00	314		1.00	(266 )
Annual increase rate of medical expenses	1.00	57		1.00	(47 )

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net post-retirement benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Expected contributions to be made in the future years out of the post-retirement benefit obligations were as follows:

	2015 RMB million	2014 RMB million
Within the next 12 months	181	210
Between 2 and 5 years	662	820
Between 5 and 10 years	831	966
Over 10 years	2,739	3,370
Total expected payments	4,413	5,366

The average duration of the post-retirement benefit obligations at the end of 2015 was 13 years (2014: 12 years).

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## 37 PENSION, MEDICAL INSURANCE AND POST-RETIREMENT BENEFITS (cont'd)

The movements in the post-retirement benefit obligations were as follows:

2015

	Pension cost charged to profit or loss			Remeasurement (gains)/losses in other comprehensive income			Sub-total included in other	Benefit settled	December 31, 2015	
	January 1, 2015	Service cost	Net interest	Sub-total included in profit or loss	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from demographic experience adjustments				Sub-total included in other comprehensive income
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	
Defined benefit obligations/benefit liability	3,032	-	114	114	-	56	(252)	(196)	(200)	2,750

2014

	Pension cost charged/(credited) to profit or loss					Remeasurement (gains)/losses in other comprehensive income					December 31, 2014
	January 1, 2014	Service cost/ investment income	Net interest	Curtailment	or loss	Sub-total included in profit or loss	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from demographic experience adjustments	Sub-total included in other comprehensive income	Benefit settled	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Defined benefit obligations	5,941	223	294	(3,251)	(2,734)	-	407	(195)	212	(387)	3,032
Fair value of plan assets	(122)	-	-	122	122	-	-	-	-	-	-
Benefit liability	5,819	223	294	(3,129)	(2,612)	-	407	(195)	212	(387)	3,032

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## 38 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right of offsetting and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	December 31,	
	2015	2014
	RMB million	RMB million
Deferred tax assets	243	170
Deferred tax liabilities	(8 )	(26 )
Net deferred tax assets	235	144

Movements in the net deferred tax assets were as follows:

	2015	2014
	RMB million	RMB million
At January 1	144	360
Credited/(charged) to profit or loss (Note 14)	113	(89 )
Charged to other comprehensive income	(22 )	(127 )
At December 31	235	144

The deferred tax assets and liabilities (prior to the offsetting of balances within the same tax jurisdiction) were made up of the taxation effects of the following:

	December 31,	
	2015	2014
	RMB million	RMB million
Deferred tax assets:		
Impairment provision for flight equipment spare parts	43	32
Impairment provision for receivables	80	23
Impairment provision for property, plant, and equipment	26	23
Derivative financial instruments	25	9
Impairment provision for available-for-sale investments	25	-
Other payables and accruals	89	183

Tax losses	133	96	
	421	366	
Deferred tax liabilities:			
Depreciation and amortisation	(136 )	(208 )	)
Available-for-sale investments	(39 )	(5 )	)
Derivative financial instruments	(11 )	(9 )	)
	(186 )	(222 )	)
	235	144	

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## 38 DEFERRED TAXATION (cont'd)

Movements in the net deferred tax assets of the Group for the year were as follows:

	At the beginning of the year RMB million	(Charged)/ credited to profit or loss RMB million	(Charged)/ credited to other comprehensive income RMB million	At the end of the year RMB million
For the year ended December 31, 2015				
Impairment provision for flight equipment spare parts	32	11	-	43
Impairment provision for receivables	23	57	-	80
Impairment provision for property, plant and equipment	23	3	-	26
Derivative financial instruments	9	(7 )	23	25
Impairment provision for available-for-sale investments	-	25	-	25
Other payables and accruals	183	(94 )	-	89
Tax losses	96	37	-	133
	366	32	23	421
Depreciation and amortization	(208 )	72	-	(136 )
Available-for-sale investments	(5 )	-	(34 )	(39 )
Derivative financial instruments	(9 )	9	(11 )	(11 )
	(222 )	81	(45 )	(186 )
Net deferred tax assets	144	113	(22 )	235
	At the beginning of the year RMB million	(Charged)/ credited to profit or loss RMB million	Charged to other comprehensive income RMB million	At the end of the year RMB million
For the year ended December 31, 2014				
Impairment provision for flight equipment spare parts	24	8	-	32
Impairment provision for receivables	20	3	-	23
Impairment provision for property, plant and equipment	39	(16 )	-	23
Derivative financial instruments	17	(8 )	-	9
Other payables and accruals	146	37	-	183

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Provision for post-retirement benefits	426	(304	)	(122	)	-	
Tax losses	-	96		-		96	
	672	(184	)	(122	)	366	
Depreciation and amortization	(295	)	87	-		(208	)
Available-for-sale investments	-	-		(5	)	(5	)
Derivative financial instruments	(17	)	8	-		(9	)
	(312	)	95	(5	)	(222	)
Net deferred tax assets	360	(89	)	(127	)	144	

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## 38 DEFERRED TAXATION (cont'd)

As at the reporting date, the Group had the following balances in respect of which deferred tax assets have not been recognized:

	December 31, 2015		2014	
	Deferred taxation RMB million	Temporary differences RMB million	Deferred taxation RMB million	Temporary differences RMB million
Tax losses carried forward	489	1,956	473	1,891
Other deductible temporary differences	49	195	671	2,685
Total unrecognised deferred tax assets	538	2,151	1,144	4,576

In accordance with the PRC tax law, tax losses can be carried forward, for a period of five years, to offset against future taxable income. The Group's tax losses carried forward will expire between 2016 and 2020.

As at December 31, 2015, 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 operating results, such as future fuel prices and market competition, management assessed that there are significant uncertainties that future taxable profits will be available and the deferred tax assets arising from aforementioned tax losses and deductible temporary differences were not recognized.

## 39 DERIVATIVE FINANCIAL INSTRUMENTS

	Assets		Liabilities	
	2015 RMB million	2014 RMB million	2015 RMB million	2014 RMB million
At December 31				
Interest rate swaps (Note (a))	22	8	101	95
Forward foreign exchange contracts (Note (b))	16	27	-	-
Cross currency swap (Note (c))	7	-	-	-
Total	45	35	101	95
Less: current portion				
– Interest rate swaps	-	-	(4 )	-
– Forward foreign exchange	-	(5 )	-	-
	-	(5 )	(4 )	-
Non-current portion	45	30	97	95

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

## Notes:

## (a) Interest rate swaps

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3). The interest rate swaps entered into by the Group for swapping floating interest rates, usually referenced to LIBOR, into fixed rates are accounted for as cash flow hedges. Other interest rate swaps are accounted for as fair value hedges. As at December 31, 2015, the notional amount of the outstanding interest rate swap agreements was approximately USD1,466 million (2014: USD801 million). These agreements will expire between 2016 and 2025.

Realized and unrealized gains and losses arising from the valuation of these interest rate swaps have been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

2015	2014	2013
------	------	------

	RMB million		RMB million		RMB million	
Realized losses (recorded in finance costs)	(134	)	(80	)	(73	)
Unrealized mark to market gains/(losses)						
– cash flow hedges (recognized in other comprehensive income)	2		(28	)	209	
– fair value hedges (recognized in gain on fair value changes of derivative financial instruments)	6		11		16	
	(126	)	(97	)	152	

## (b) Foreign exchange forward contracts

The Group uses foreign exchange forward contracts to reduce the risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3). The Group's foreign exchange forward contracts for selling foreign currency (i.e., Japanese Yen) and purchasing US dollars at fixed exchange rates are accounted for as cash flow hedges. As at December 31, 2015, the notional amount of the outstanding currency forward contracts was approximately USD12 million (2014: USD39 million), which will expire in 2017.

Realized and unrealized gains and losses arising from the valuation of these contracts have been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 RMB million		2014 RMB million		2013 RMB million
Realized gains/(losses) (recorded in finance income/(costs))	15		(2	)	39
Unrealized mark to market (losses)/gains					
– cash flow hedges (recognized in other comprehensive income)	(11	)	17		37
	4		15		76

## 39 DERIVATIVES FINANCIAL INSTRUMENTS (cont'd)

## (c) Cross currency swap

The Group uses cross currency swap to reduce the risk of changes in currency exchange rates and market interest rates (Note 3). The cross currency swap entered into by the Group for swapping US dollars floating interest rates (LIBOR) into Euro floating interest rates (EURIBOR), is accounted for as a cash flow hedge. As at December 31, 2015, the notional amount of the outstanding cross currency swap agreement was approximately USD38 million (2014: Nil). The agreement will expire in 2025.

Unrealized gain and loss arising from the valuation of the contract has been dealt with in the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 RMB million	2014 RMB million
Unrealized mark to market gain – cash flow hedge (recognized in other comprehensive income)	7	-

## 40 FINANCIAL INSTRUMENTS BY CATEGORY

2015	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available for sale	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Financial assets					
Available-for-sale investments	-	-	-	452	452
Derivative financial instruments	-	-	45	-	45
Trade receivables	2,867	-	-	-	2,867
Other receivables	3,438	-	-	-	3,438
Restricted bank deposits and short-term bank deposits	35	-	-	-	35
Cash and cash equivalents	9,080	-	-	-	9,080
Other non-current assets	338	-	-	-	338
Total	15,758	-	45	452	16,255



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2015	Loans and receivables	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Financial liabilities					
Borrowings	66,712	-	-	-	66,712
Obligations under finance leases	52,399	-	-	-	52,399
Derivative financial instruments	-	2	99	-	101
Trade and bills payables	3,712	-	-	-	3,712
Other payables	11,721	-	-	-	11,721
Total	134,544	2	99	-	134,645

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## 40 FINANCIAL INSTRUMENTS BY CATEGORY (cont'd)

2014	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available for sale	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
<b>Financial assets</b>					
Available-for-sale investments	-	-	-	433	433
Derivative financial instruments	-	-	35	-	35
Trade receivables	3,862	-	-	-	3,862
Other receivables	1,313	-	-	-	1,313
Restricted bank deposits and short-term bank deposits	38	-	-	-	38
Cash and cash equivalents	1,355	-	-	-	1,355
Other non-current assets	528	-	-	-	528
<b>Total</b>	<b>7,096</b>	<b>-</b>	<b>35</b>	<b>433</b>	<b>7,564</b>

2014	Loans and receivables	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
<b>Financial liabilities</b>					
Borrowings	59,189	-	-	-	59,189
Obligations under finance leases	38,695	-	-	-	38,695
Derivative financial instruments	-	8	87	-	95
Trade and bills payables	2,083	-	-	-	2,083
Other payables	12,818	-	-	-	12,818
<b>Total</b>	<b>112,785</b>	<b>8</b>	<b>87</b>	<b>-</b>	<b>112,880</b>

## 41 SHARE CAPITAL

	2015 RMB million	2014 RMB million
Registered, issued and fully paid of RMB1.00 each		
A shares listed on The Shanghai Stock Exchange (“A Shares”)	8,481	8,481
- Tradable shares held by CEA Holding with trading moratorium	242	242
- Tradable shares held by CES Finance Holding Co., Ltd. with trading moratorium	457	457
- Tradable shares without trading moratorium	7,782	7,782
H shares listed on The Stock Exchange of Hong Kong Limited (“H Shares”)	4,659	4,193
- Tradable shares held by CES Global Holdings (Hong Kong) Limited with trading moratorium	699	699
- Tradable shares held by Delta Air Lines, Inc. without trading moratorium	466	-
- Tradable shares without trading moratorium	3,494	3,494
	13,140	12,674

Pursuant to articles 49 and 50 of the Company’s articles of association, both the listed A shares and listed H shares are registered ordinary shares and carry equal rights.

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue
At January 1, 2014, December 31, 2014 and January 1, 2015	12,674
Issue of shares	466
At December 31, 2015	13,140

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## RESERVES

	Share premium RMB million	Capital reserve (Note (a)) RMB million	Hedging reserve RMB million	Statutory reserve (Note (b)) RMB million	Other reserves RMB million	Retained profits/ (accumulated losses) RMB million	Total RMB million
At January 1, 2014	20,190	(778 )	(50 )	-	(2,539 )	(2,595 )	14,228
Unrealised losses on cash flow hedges (Note 39)	-	-	(11 )	-	-	-	(11 )
Fair value changes of available-for-sale investments	-	-	-	-	14	-	14
Actuarial losses on post-retirement benefit obligations	-	-	-	-	(341 )	-	(341 )
Profit for the year	-	-	-	-	-	3,410	3,410
At December 31, 2014	20,190	(778 )	(61 )	-	(2,866 )	815	17,300
At January 1, 2015	20,190	(778 )	(61 )	-	(2,866 )	815	17,300
Unrealised gains on cash flow hedges (Note 39)	-	-	10	-	-	-	10
Fair value changes of available-for-sale investments	-	-	-	-	82	-	82
Fair value changes of available-for-sale investments held by an associate	-	-	-	-	7	-	7
Actuarial gains on post-retirement benefit obligations	-	-	-	-	198	-	198
Acquisition of non-controlling Interests	(252 )	-	-	-	-	-	(252 )
Transfer from retained profits	-	-	-	184	-	(184 )	-
Issue of shares	2,389	-	-	-	-	-	2,389
Profit for the year	-	-	-	-	-	4,537	4,537
At December 31, 2015	22,327	(778 )	(51 )	184	(2,579 )	5,168	24,271

Notes:

(a)

Capital reserve

Capital reserve represents the difference between the fair value of the net assets injected and the nominal amount of the Company's share capital issued in respect of a group restructuring carried out in June 1996 for the purpose of the Company's listing.

(b)

Reserve funds

According to the PRC Company Law, the Company is required to transfer a portion of the profits to the statutory reserve. The transfer to this reserve must be made before distribution of dividend to shareholders and when there are retained profits at the end of the financial year.

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43 DISPOSAL OF A SUBSIDIARY

	2015 RMB million
Net assets disposed of:	
Cash and bank balances	8
Lease prepayments	137
Other payables and accruals	(137 )
Gain on disposal of a subsidiary	41
	49

	2015 RMB million
Satisfied by:	
Cash	49

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2015 RMB million
Cash consideration	49
Cash and bank balances disposed of	(8 )
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	41

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## 44PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2015	2014
Percentage of equity interest held by non-controlling interests		
CEA Jiangsu	37.44%	37.44%
CEA Yunnan	9.64%	9.64%
CEA Wuhan	40.00%	40.00%
China Cargo	17.00%	49.00%
	2015	2014
Profit/(loss) for the year allocated to non-controlling interests	<i>RMB million</i>	<i>RMB million</i>
CEA Jiangsu	174	156
CEA Yunnan	120	31
CEA Wuhan	207	137
China Cargo	2	(160 )
Dividends paid to non-controlling interests of CEA Jiangsu	37	20
Accumulated balances of non-controlling interests at the reporting dates:		
CEA Jiangsu	1,104	966
CEA Yunnan	499	379
CEA Wuhan	1,074	865
China Cargo	(132 )	(378 )

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

2015	CEA Jiangsu RMB million	CEA Yunnan RMB million	CEA Wuhan RMB million	China Cargo RMB million
Revenue	6,431	9,518	3,486	4,325
Total expenses	5,965	8,273	2,968	4,316
Profit for the year	466	1,245	518	9
Total comprehensive income for the year	469	1,245	521	12
Current assets	2,080	2,936	2,570	1,314
Non-current assets	8,149	14,880	3,412	1,724
Current liabilities	2,444	4,565	1,307	2,875

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Non-current liabilities	4,836	8,073	1,991	923
Net cash flows from operating activities	574	2,293	257	702
Net cash flows from/(used in) investing activities	74	(1,371	) (114	) (71
Net cash flows used in financing activities	(617	) (934	) (145	) (668
Effect of foreign exchange rate changes, net	1	14	-	1
Net increase/(decrease) in cash and cash equivalents	32	2	(2	) (36

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## 44PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (cont'd)

2014	CEA Jiangsu RMB million	CEA Yunnan RMB million	CEA Wuhan RMB million	China Cargo RMB million
Revenue	6,435	9,133	3,346	5,285
Total expenses	6,019	8,812	3,003	5,612
Profit/(loss) for the year	416	321	343	(327 )
Total comprehensive income/(loss)for the year	332	321	302	(368 )
Current assets	1,666	1,730	1,036	1,483
Non-current assets	6,347	10,385	3,134	1,881
Current liabilities	2,241	3,240	855	3,185
Non-current liabilities	3,192	4,941	1,153	951
Net cash flows from/(used in) operating activities	812	1,162	188	(361 )
Net cash flows used in investing activities	(454 )	(849 )	(2 )	(59 )
Net cash flows (used in)/from financing activities	(402 )	(541 )	(152 )	180
Effect of foreign exchange rate changes, net	-	(25 )	-	-
Net (decrease)/increase in cash and cash equivalents	(44 )	(253 )	34	(240 )

**(a) Cash generated from operations**

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Profit before income tax	5,667	4,113	2,217
Adjustments for:			
Depreciation of property, plant and equipment and amortization of other non-current assets	10,710	9,056	8,117
Amortization of intangible assets	85	69	57
Depreciation of investment properties	4	-	-
Amortization of lease prepayments	60	58	52
(Gains)/losses on disposal of property, plant and equipment	(378 )	25	(316 )
Gain on disposal of investments in a subsidiary	(41 )	-	-
Gain on disposals of investment in associates	-	-	(9 )
Gain on disposal of available-for-sale investments	(33 )	-	-
Dividend income from available-for-sale investments	(13 )	-	-
Share of results of associates	(126 )	(91 )	(38 )
Share of results of joint ventures	(26 )	(36 )	(27 )
Net foreign exchange losses/(gains)	5,480	203	(1,976 )
Gain on fair value changes of derivative financial instruments	(6 )	(11 )	(16 )
(Reversal of)/provision for post-retirement benefits	-	(2,612 )	183
Impairment charges	228	22	184
Interest income	(66 )	(88 )	(148 )
Interest expense	2,075	1,957	1,549
<b>Operating profit before working capital changes</b>	<b>23,620</b>	<b>12,665</b>	<b>9,829</b>
Changes in working capital			
Flight equipment spare parts	117	(37 )	(198 )
Trade receivables	985	(345 )	(557 )
Prepayments and other receivables	(2,011 )	(1,314 )	(2,028 )
Restricted bank deposits and short-term bank deposits	-	345	1,343
Sales in advance of carriage	777	1,491	440
Trade and bills payables	1,629	(720 )	387
Other payables and accruals	(234 )	1,024	1,539
Staff housing allowances	105	45	(11 )
Other long-term liabilities	1,164	145	(94 )
Post-retirement benefit obligations	(282 )	(387 )	(172 )
Provision for return condition checks for aircraft under operating leases	(381 )	(333 )	419
Operating lease deposits	46	188	223

Cash generated from operations	25,535	12,767	11,120
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**(b) Major non-cash transactions**

	Year ended December 31,		
	2015 RMB million	2014 RMB million	2013 RMB million
Finance lease obligations incurred for acquisition of aircraft	21,887	19,905	4,525

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## 46 COMMITMENTS

**(a) Capital commitments**

The Group had the following capital commitments:

	2015 RMB million	2014 RMB million
Contracted for:		
– Aircraft, engines and flight equipment (Note)	106,666	105,011
– Other property, plant and equipment	3,923	3,108
– Investment	-	38
	110,589	108,157

Note:

Contracted expenditures for the above aircraft, engines and flight equipment, including deposits prior to delivery, subject to future inflation increase built into the contracts were expected to be paid as follows:

	2015 RMB million	2014 RMB million
Within one year	23,781	25,830
In the second year	26,642	18,249
In the third year	25,579	14,833
In the fourth year	18,793	16,119
Over four years	11,871	29,980
	106,666	105,011

The above capital commitments represent the future outflow of cash or other resources.

**(b) Operating lease commitments**

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

	2015 RMB million	2014 RMB million
Aircraft, engines and flight equipment		
Within one year	4,308	3,818
In the second year	3,676	3,508
In the third to fifth years, inclusive	7,962	8,022
After the fifth year	8,977	8,682
	24,923	24,030
Land and buildings		
Within one year	299	202
In the second year	219	164
In the third to fifth years, inclusive	410	382
After the fifth year	814	1,983
	1,742	2,731
	26,665	26,761

## 47 RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which directly owns 38.61% of the Company's shares as at December 31, 2015 (2014: 40.03%). In addition, through CES Global Holdings (Hong Kong) Limited and CES Finance Holding Co., Ltd., two wholly-owned subsidiaries of CEA Holding, CEA Holding indirectly owns additional approximately 19.99% and 3.48% of the Company's shares respectively as at December 31, 2015 (2014: 20.72% and 3.61%).

The Company is a state-owned enterprise established in the PRC and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 "Related Party Disclosures", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include CEA Holding and its subsidiaries (other than the Group), other government-related entities and their subsidiaries ("Other State-owned Enterprises"), other entities and corporations over which the Company is able to control or exercise significant influence and key management personnel of the Company as well as their close family members.

For the purpose of the related party transaction disclosures, the directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed.

**(a) Nature of related parties that do not control or controlled by the Group:**

<b>Name of related party</b>	<b>Relationship with the Group</b>
Eastern Air Finance Company	Associate of the Company
Eastern Import & Export	Associate of the Company
Shanghai P&W	Associate of the Company
Eastern Advertising	Associate of the Company
Jetstar Hong Kong	Associate of the Company
Collins Aviation	Associate of the Company
Shanghai Dongmei Air Travel Co., Ltd. ("Shanghai Dongmei")	Associate of the Company (acquired by the Group and became a wholly-owned subsidiary in August 2014)
Wheels & Brakes	Joint venture of the Company
Technologies Aerospace	Joint venture of the Company
China Kaiya	Joint venture of the Company
Shanghai Hute	Joint venture of the Company
CEA Development Co., Ltd. ("CEA Development")	Controlled by the same parent company
China Eastern Air Catering Investment Co., Ltd. and its subsidiaries ("Eastern Air Catering")	Controlled by the same parent company
CES International Financial Leasing Corporation Limited ("CES Lease Company")	Controlled by the same parent company
	Controlled by the same parent company

Shanghai Eastern Airlines Investment Co., Ltd.

(“Eastern Investment”)

Eastern Airlines Tourism Investment (Group) Co.,

Ltd. (“Eastern Tourism”)

Controlled by the same parent company

Controlled by the same parent company (acquired by the Eastern Investment in

Beijing Eastern Airlines Investment Co., Ltd.

(“Beijing Dongtou”)

August 2015)

TravelSky Technology Limited (“TravelSky”)

A director and vice president of the Company is a director of Travelsky

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## 47 RELATED PARTY TRANSACTIONS (cont'd)

**(b) Related party transactions**

Nature of transaction	Related party	Pricing policy and decision process	Income or receipts/ (expense or payments)		
			2015 RMB million	2014 RMB million	2013 RMB million
With CEA Holding or companies directly or indirectly held by CEA Holding:					
Interest income on deposits	Eastern Air Finance Company	(iv)	20	21	25
Interest income on loans	Jetstar Hong Kong	(iv)	1	10	-
Interest expense on loans	Eastern Air Finance Company	(iv)	(11 )	(37 )	(42 )
Commission expense on air tickets sold on behalf of the Group	Shanghai Dongmei	(ii)	-	(5 )	(9 )
Handling charges for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and flight equipment and repairs for aircraft and engines*	Eastern Import & Export	(ii)	(119 )	(120 )	(105 )
Repairs and maintenance expense for aircraft and engines	Wheels & Brakes Technologies Aerospace	(ii)	(137 )	(81 )	(72 )
	Shanghai P&W	(ii)	(1,717)	(1,804 )	(1,660 )
Supply of system services	China Kaiya	(ii)	(45 )	(36 )	(6 )
Supply of food and beverages*	Eastern Air Catering	(i)	(1,058)	(851 )	(919 )
	CEA development	(i)	(38 )	-	(27 )
	Eastern Import & Export	(i)	(32 )	-	(25 )



Advertising expense*	Eastern Advertising	(ii)	(24 )	(5 )	(10 )
Media royalty fee	Eastern Advertising	(iii)	26	16	15
Automobile maintenance service, aircraft maintenance, providing transportation automobile and other products*	CEA Development	(ii)	(86 )	(142 )	(143 )
Equipment maintenance fee	Shanghai Hute	(ii)	-	(66 )	(69 )
	Collins Aviation	(ii)	(26 )	(46 )	(33 )
	CEA Development	(ii)	(24 )	-	(65 )
Property management and green maintenance expenses*	Eastern Investment	(ii)	-	(4 )	-
	CEA Development	(ii)	(52 )	-	-
Supply of hotel accommodation service*	Eastern Tourism	(ii)	-	(1 )	-
	CEA Development		(39 )	-	-
Land and building rental*	CEA Holding	(ii)	(52 )	(50 )	(59 )
Acquisition of a subsidiary	Eastern Tourism	(v)	-	(32 )	(12 )
Disposal of a subsidiary	Eastern Investment	(v)	49	-	-
Expense on finance lease*	CES Lease Company	(ii)	(216 )	-	-
Civil aviation information network services**	TravelSky	(ii)	(454 )	-	-

47 RELATED PARTY TRANSACTIONS (cont'd)

**(b) Related party transactions (cont'd)**

- (i) The Group's pricing policies on products purchased from related parties are mutually agreed between contract parties.
- (ii) The Group's pricing policies on services provided by related parties are mutually agreed between contract parties.
- (iii) The Group's pricing policies on services provided to related parties are mutually agreed between contract parties.
- (iv) The Group's pricing policies on related party interest rates are mutually agreed based on benchmark interest rates between contract parties.
- (v) The Group's pricing policies on transfer of equity or disposal of investments are mutually agreed based on the valuation prices.

\* These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

\*\* This related party transaction constitutes continuing connected transaction pursuant to the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

## 47 RELATED PARTY TRANSACTIONS (cont'd)

**(c) Balances with related parties**

## (i) Amounts due from related parties

	December 31,	
	2015	2014
	RMB million	RMB million
Trade receivables		
Others	-	1
Prepayments and other receivables		
Eastern Import & Export	31	123
Collins Aviation	-	16
Technologies Aerospace	5	-
China Kaiya	11	14
Beijing Dongtou	88	-
Others	4	16
	139	169

All the amounts due from related parties are trade in nature, interest-free and payable within normal credit terms.

## (ii) Amounts due to related parties

	December 31,	
	2015	2014
	RMB million	RMB million
Trade payable and bills payables		
Eastern Import & Export	295	112
Eastern Air Catering	37	38
Wheels & Brakes	8	-
CEA development	2	-
Collins Aviation	1	-
CEA Holding	1	-
Technologies Aerospace	5	4

TravelSky	548	-
Others	-	32
	897	186
Other payables and accruals		
Eastern Import & Export	303	652
Shanghai P&W	259	255
Eastern Air Catering	253	154
CEA Holding	160	97
Collins Aviation	3	15
China Kaiya	-	12
Shanghai Hute	-	59
Technologies Aerospace	25	157
Wheels & Brakes	3	-
Jetstar Hong Kong	10	-
CEA Development	61	50
TravelSky	223	-
Others	5	32
	1,305	1,483
Obligations under finance leases		
CES Lease Company	5,826	-

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

## 47 RELATED PARTY TRANSACTIONS (cont'd)

**(c) Balances with related parties (cont'd)**

## (iii) Short-term deposits and borrowings with associates and CEA Holding

	Average interest rate		December 31,	
	2015	2014	2015	2014
			RMB	RMB
			million	million
Short-term deposits (included in cash and cash equivalents) “Eastern Air Finance Company”	0.35	% 0.35	% 729	369
Short-term borrowings (included in borrowings) “Eastern Air Finance Company”	2.07	% 2.26	% -	73
Long-term borrowings (included in borrowings) “Eastern Air Finance Company”	5.54	% 5.73	% -	125
Loans(Note) (included in prepayments and other receivables) “Jetstar Hong Kong”	1 month libor+3.44%	1 month libor+3.44%	-	369

In July 2014, Eastern Air Overseas signed a loan contract with Jetstar Hong Kong, an associate of the Company. Note: According to the contract, Eastern Air Overseas offered a loan of USD60 million at the market interest rate to Jetstar Hong Kong. The principal of the loan was repaid on April 30, 2015.

**(d) Guarantees by holding company**

As at December 31, 2015, bonds of the Group guaranteed by CEA Holding amounted to RMB4.8 billion (2014: RMB4.8 billion) (Note 34(b)).

**(e) Key management compensation**

The compensation paid or payable to key management for employee services mainly comprised of salaries and other short-term employee benefits and was analyzed as below:

	2015 RMB million	2014 RMB million	2013 RMB million
Directors and supervisors (Note 9(a))	3	3	4
Senior management	3	3	3
	6	6	7

#### 48EVENTS AFTER THE REPORTING PERIOD

In January 2016, the Group received the approval from China Securities Regulatory Commission regarding the non-public issuance of not more than 2,329,192,546 A Shares.

On January 18, 2016, the Company issued short-term debentures with a principal of RMB2.5 billion and maturity of 90 days. The debentures bear interest at the rate of 2.5% per annum.

On January 20, 2016, the Company issued short-term debentures with a principal of RMB2.0 billion and maturity of 90 days. The debentures bear interest at the rate of 2.5% per annum.

On March 24, 2016, the Company issued short-term debentures with a principal of RMB3.0 billion and maturity of 270 days. The debentures bear interest at the rate of 2.4% per annum.

The Board of the Group also intends, for mid-2016, a cash dividend distribution of not less than 40% of the net profit of the Company for the year 2015 under domestic accounting principles.

On April 8, 2016, the Company issued short-term debentures with a principal of RMB 3.0 billion and maturity of 259 days. The debentures bear interest at the rate of 2.5 % per annum.

On April 13, 2016, the Company issued short-term debentures with a principal of RMB 3.0 billion and maturity of 90 days. The debentures bear interest at the rate of 2.35 % per annum.

On April 14, 2016, the Company issued short-term debentures with a principal of RMB 3.0 billion and maturity of 180 days. The debentures bear interest at the rate of 2.55 % per annum.

On April 20, 2016, the Company issued short-term debentures with a principal of RMB 3.0 billion and maturity of 270 days. The debentures bear interest at the rate of 2.80 % per annum.

#### 49 DIVIDENDS

The Board has not recommended any dividend for the years ended December 31, 2015, 2014 and 2013.

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As further explained in note 2.2 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items in the financial statements have been revised to comply with the new requirements.

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