ServiceNow, Inc.
Form 4
April 09, 2014

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Barber Paul V

(Last) (First) (Middle)

100 INTERNATIONAL DRIVE, SUITE 19100

(Street)

BALTIMORE, MD 21202

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ServiceNow, Inc. [NOW]

3. Date of Earliest Transaction (Month/Day/Year)
04/07/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/07/2014		S (1)		15,953	D	$ 51.02 (2)	698,436	D	
Common Stock	04/07/2014		S (1)		7,060	D	$ 51.89 (3)	691,376	D	
Common Stock	04/07/2014		S (1)		337	D	$ 52.6 (4)	691,039	D	
Common Stock	04/07/2014		S (1)		3,025 (5)	D	$ 51.02 (2)	132,431 (5)	I	See footnote (5)

Common Stock	04/07/2014		S[(1)]		1,339 [(5)]	D	$ 51.89 [(3)]	131,092 [(5)]	I	See footnote [(5)]
Common Stock	04/07/2014		S[(1)]		63 [(5)]	D	$ 52.6 [(4)]	131,029 [(5)]	I	See footnote [(5)]

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Barber Paul V 100 INTERNATIONAL DRIVE, SUITE 19100 BALTIMORE, MD 21202	X			

Signatures

/s/ Paul V. Barber	04/09/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The sales reported on this Form 4 were effected pursuant to a Rule 10b5-1 trading plan adopted by the Reporting Person on November 27, 2013.

(2) The sale prices reported represent the weighted average sale price of the shares sold ranging from $50.56 to $51.55 per share. The Reporting Person hereby undertakes, upon request of the Staff of the U.S. Securities and Exchange Commission, the Issuer or a security holder of the Issuer, to provide full information regarding the number of shares sold at each separate price.

(3) The sale prices reported represent the weighted average sale price of the shares sold ranging from $51.56 to $52.52, per share. The Reporting Person hereby undertakes, upon request of the Staff of the U.S. Securities and Exchange Commission, the Issuer or a security holder of the Issuer, to provide full information regarding the number of shares sold at each separate price.

(4) The sale prices reported represent the weighted average sale price of the shares sold ranging from $52.60 to $52.61, per share. The Reporting Person hereby undertakes, upon request of the Staff of the U.S. Securities and Exchange Commission, the Issuer or a security holder of the Issuer, to provide full information regarding the number of shares sold at each separate price.

(5) Represents shares of Common Stock sold on April 7, 2014 by two family trusts for which Mr. Barber may be deemed to control investment decisions (the "Family Trusts"). Immediately following such sales, the Family Trusts directly held an aggregate of 131,029 shares of Common Stock. The Family Trusts are irrevocable, and one or more beneficiaries of such trusts is an immediate family member of Mr. Barber. Mr. Barber disclaims Section 16 beneficial ownership of the shares held by such trusts and this report shall not be deemed an admission that such reporting person is the beneficial owner of such shares held by such trusts, except to the extent of his pecuniary interest, if any, in the shares held by such trusts by virtue of his position with such trusts.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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At 31 December 2008
— 217,258 93,471 310,729
Impairment

At 1 January 2008
— — — —
Charge for the year
993,143 — — 993,143
At 31 December 2008
993,143 — — 993,143
Net book amount

At 31 December 2007
993,143 184,936 66,627 1,244,706
At 31 December 2008
— 102,742 62,109 164,851

	Company			
	Goodwill (Note (a)) RMB'000	Sponsorship fee (Note (b)) RMB'000	Computer software RMB'000	Total RMB'000
Cost				
At 1 January 2007	688,311	320,000	117,389	1,125,700
Other additions	—	—	15,071	15,071
Disposals	—	—	(1,715)	(1,715)
At 31 December 2007	688,311	320,000	130,745	1,139,056
At 1 January 2008	688,311	320,000	130,745	1,139,056
Other additions	—	—	23,321	23,321
At 31 December 2008	688,311	320,000	154,066	1,162,377
Accumulated amortisation				
At 1 January 2007	—	52,870	40,151	93,021
Charge for the year	—	82,194	24,454	106,648
Disposals	—	—	(287)	(287)
At 31 December 2007	—	135,064	64,318	199,382
At 1 January 2008	—	135,064	64,318	199,382
Charge for the year	—	82,194	27,911	110,105
At 31 December 2008	—	217,258	92,229	309,487
Impairment				
At 1 January 2008	—	—	—	—
Charge for the year	688,311	—	—	688,311
At 31 December 2008	688,311	—	—	688,311
Net book amount				
At 31 December 2007	688,311	184,936	66,427	939,674
At 31 December 2008	—	102,742	61,837	164,579

Notes:

(a) Impairment tests for goodwill

The Group operates in two cash-generating units (''CGU'') which are passenger (including cargo carried by passenger flights) and cargo and logistics.

For the year ended 31 December 2008, the Group and the Company recognised impairment charge of RMB993 million and RMB688 million respectively, against goodwill which had previously been recognised in connection with the acquisition of Yunnan Airline, Xibei Airline and Wuhan Airline within the passenger CGU. The impairment charge recognised represents the amount by which the CGU's carrying amount exceeds its recoverable amount.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

Key assumptions used for cash flow projections are as following:

— Passenger yield growth rate	0% to 4.5%
— Passenger load factor	63% to 80%
— Aircraft daily utilization (hours per day)	5.4 to 11.4
— Discount rate	10%

Management determined budgeted passenger yield increase rate, load factor and aircraft daily utilization based on past performance and its expectations for market development. The discount rate used is pre-tax and reflects specific risks relating to the Group's business.

(b) Sponsorship fees

In March 2006, the Company entered into an agreement (the ''Sponsorship Agreement'') with the Bureau of 2010 Expo Shanghai (the ''Bureau'') which designated the Group as the exclusive airline passenger carrier in the PRC to sponsor the 2010 Shanghai Expo. The Company will be entitled to a number of rights, including but not limited to the use of the Expo logo in the Group's products, priority to purchase advertising space at the Expo site etc. In return, the Company is required to pay a total sponsorship fee of RMB320 million, RMB160 million of which would be paid in cash by instalments, the remaining RMB160 million would be settled by value-in-kind services (''VIK'') (in the form of goods or services) to support the 2010 Shanghai Expo. Accordingly, an intangible asset has been recognised and amortised on straight-line basis over the period from the effective date of the Sponsorship Agreement to the completion of the Expo. The outstanding sponsorship fee of RMB178 million (2007 : 233 million) has been recognised as other long-term liabilities (Note 34) in the Group's balance sheet.

19. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2008, as restated	32,928,494	27,815,704	2,825,748	3,883,784	480,791	67,934,521
Reclassification upon a purchase	3,094,561	(3,094,561)	—	—	—	—
Sales and finance lease back	(3,085,419)	3,085,419	—	—	—	—
Transfers from construction in progress	—	—	233,746	19,313	(253,059)	—
Transfers from advanced payments on acquisition of aircraft (Note 21)	411,153	3,816,843	—	—	—	4,227,996
Other additions	1,781,272	4,683,699	360,498	335,220	345,730	7,506,419
Other disposals	(719,787)	(408,134)	(8,047)	(143,060)	—	(1,279,028)
At 31 December 2008	34,410,274	35,898,970	3,411,945	4,095,257	573,462	78,389,908
Accumulated depreciation						
At 1 January 2008, as restated	13,165,501	4,820,675	673,892	1,986,752	—	20,646,820
Reclassification upon purchase	1,580,097	(1,580,097)	—	—	—	—
Sales and finance lease back	(1,779,979)	1,779,979	—	—	—	—
Charge for the year	2,138,172	1,913,877	108,826	379,654	—	4,540,529
Other disposals	(520,373)	(408,134)	(932)	(6,326)	—	(935,765)
At 31 December 2008	14,583,418	6,526,300	781,786	2,360,080	—	24,251,584

Impairment						
At 1 January 2008	—	—	13,094	550	4,303	17,947
Charge for the year (Note (a))	966,191	473,393	—	—	2,320	1,441,904
At 31 December 2008	966,191	473,393	13,094	550	6,623	1,459,851
Net book amount						
At 31 December 2008	18,860,665	28,899,277	2,617,065	1,734,627	566,839	52,678,473
At 1 January 2008	19,762,993	22,995,029	2,138,762	1,896,482	476,488	47,269,754

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	Group					
	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
ary 2007, as restated	31,922,671	21,310,056	2,752,340	3,514,463	250,112	59,749,642
ication upon a purchase	4,203,030	(4,203,030)	—	—	—	—
from construction in progress	—	—	84,402	91,269	(175,671)	—
from advanced payments ition of aircraft (Note 21)	189,402	4,920,311	—	—	—	5,109,713
ditions	1,792,502	6,026,340	51,276	380,211	406,350	8,656,679
to a jointly controlled entity (Note 24)	—	—	(28,489)	(2,773)	—	(31,262)
posals	(788,727)	(237,973)	(33,781)	(99,386)	—	(1,159,867)
to assets held for sale	(4,390,384)	—	—	—	—	(4,390,384)
cember 2007	32,928,494	27,815,704	2,825,748	3,883,784	480,791	67,934,521
ated depreciation						
ary 2007, as restated	12,472,726	5,393,870	582,072	1,659,800	—	20,108,468
ication upon a purchase	2,203,703	(2,203,703)	—	—	—	—
or the year	2,221,399	1,868,481	103,622	394,683	—	4,588,185
to a jointly controlled entity	—	—	(5,562)	(1,426)	—	(6,988)
posals	(786,032)	(237,973)	(6,240)	(66,305)	—	(1,096,550)
to assets held for sale	(2,946,295)	—	—	—	—	(2,946,295)
cember 2007	13,165,501	4,820,675	673,892	1,986,752	—	20,646,820
ent						
ary 2007, as restated	—	—	13,094	550	4,303	17,947
or the year	—	—	—	—	—	—
cember 2007	—	—	13,094	550	4,303	17,947
amount						
cember 2007	19,762,993	22,995,029	2,138,762	1,896,482	476,488	47,269,754
ary 2007	19,449,945	15,916,186	2,157,174	1,854,113	245,809	39,623,227

	Company					
	Aircraft, engines and flight equipment					
	Owned	Held under finance leases	Buildings	Other property, plant and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2008, as restated	27,203,710	23,659,953	1,539,304	2,433,576	205,951	55,042,494
Reclassification upon a purchase	3,094,561	(3,094,561)	—	—	—	—
Sales and finance lease back	(3,085,419)	3,085,419	—	—	—	—
Transfers from construction in progress	—	—	56,226	19,314	(75,540)	—
Transfers from advanced payments on acquisition of aircraft (Note 21)	411,153	3,816,843	—	—	—	4,227,996
Other additions	1,662,101	4,616,658	346,804	150,603	284,791	7,060,957
Other disposals	(494,530)	(360,988)	(2,070)	(95,289)	—	(952,877)
At 31 December 2008	28,791,576	31,723,324	1,940,264	2,508,204	415,202	65,378,570
Accumulated depreciation						
At 1 January 2008, as restated	10,254,289	4,333,277	409,816	1,460,062	—	16,457,444
Reclassification upon purchase	1,580,097	(1,580,097)	—	—	—	—
Sales and finance lease back	(1,779,979)	1,779,979	—	—	—	—
Charge for the year	1,929,703	1,636,342	53,734	271,797	—	3,891,576
Other disposals	(478,713)	(360,988)	(346)	(88,027)	—	(928,074)
At 31 December 2008	11,505,397	5,808,513	463,204	1,643,832	—	19,420,946
Impairment						

At 1 January 2008	—	—	—	—	4,303	4,303
Charge for the year (Note (a))	966,191	473,393	—	—	897	1,440,481
At 31 December 2008	966,191	473,393	—	—	5,200	1,444,784
Net book amount						
At 31 December 2008	16,319,988	25,441,418	1,477,060	864,372	410,002	44,512,840
At 1 January 2008	16,949,421	19,326,676	1,129,488	973,514	201,648	38,580,747

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	Company					
	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2007, as restated	22,709,498	18,475,510	1,503,144	2,212,408	155,533	45,056,093
Reclassification upon a purchase	3,909,982	(3,909,982)	—	—	—	—
Transfers from construction in progress	—	—	82,588	13,388	(95,976)	—
Transfers from advanced payments on acquisition of aircraft (Note 21)	114,941	4,177,685	—	—	—	4,292,626
Other additions	1,070,095	5,149,747	1,437	289,425	146,394	6,657,098
Disposal to a jointly controlled entity (Note 24)	—	—	(28,489)	(2,773)	—	(31,262)
Other disposals	(597,936)	(233,007)	(19,376)	(78,872)	—	(929,191)
Transfers to assets held for sale	(2,870)	—	—	—	—	(2,870)
At 31 December 2007	27,203,710	23,659,953	1,539,304	2,433,576	205,951	55,042,494
Accumulated depreciation						
At 1 January 2007, as restated	7,145,363	5,001,753	369,913	1,226,280	—	13,743,309
Reclassification upon a purchase	2,061,531	(2,061,531)	—	—	—	
Charge for the year	1,642,746	1,626,062	49,979	293,667	—	3,612,454
Disposal to a jointly controlled entity (Note 24)	—	—	(5,562)	(1,426)	—	(6,988)
Other disposals	(595,240)	(233,007)	(4,514)	(58,459)	—	(891,220)
Transfers to assets held for sale	(111)	—	—	—	—	(111)
At 31 December 2007	10,254,289	4,333,277	409,816	1,460,062	—	16,457,444
Impairment						
At 1 January 2007, as restated	—	—	—	—	4,303	4,303
Charge for the year	—	—	—	—	—	—
At 31 December 2007	—	—	—	—	4,303	4,303
Net book amount						
At 31 December 2007	16,949,421	19,326,676	1,129,488	973,514	201,648	38,580,747
At 1 January 2007	15,564,135	13,473,757	1,133,231	986,128	151,230	31,308,481

Notes:

(a) In view of the decline in demand on the air transportation market under the current economic environment, the Group performed an impairment test on property, plant and equipment (''PP&E'') as at 31 December 2008, based on which an impairment provision of RMB1,442 million was made against certain aircraft model and the related equipment which reflects their relatively lower operation efficiency and which management intend to retire in the near future (Note 10). In determining the recoverable amounts of the related assets, management has compared the value in use and the fair value less costs to sell of the related assets, primarily determined by reference to estimated market values.

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(b) As at 31 December 2008, certain aircraft and buildings owned by the Group and the Company with an aggregate net book amount of approximately RMB8,723 million and RMB7,209 million respectively (2007 : RMB9,865 million and RMB8,990 million respectively) were pledged as collateral under certain loan arrangements (note 32).

20. LEASE PREPAYMENTS

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January	1,175,104	1,247,104	546,404	616,553
Other additions	54,964	—	5,381	—
Disposal to a jointly controlled entity (Note 24)	—	(70,149)	—	(70,149)
Other disposals	—	(1,851)	—	—
At 31 December	1,230,068	1,175,104	551,785	546,404
Accumulated amortisation				
At 1 January	207,607	192,742	121,268	118,885
Charge for the year	25,940	24,847	10,245	11,502
Disposal to a jointly controlled entity (Note 24)	—	(9,119)	—	(9,119)
Other disposals	—	(863)	—	—
At 31 December	233,547	207,607	131,513	121,268
Net book amount				
At 31 December	996,521	967,497	420,272	425,136

Lease prepayments represent unamortised prepayments for land use rights.

The Group's land use rights are located in the PRC and the majority of these land use rights have terms of 50 years from the date of grant. As at 31 December 2008, the majority of these land use rights had remaining terms ranging from 38 to 53 years (2007 : from 39 to 54 years).

21. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	6,695,573	7,668,708	6,695,573	7,006,853
Additions	3,603,824	3,737,079	3,603,824	3,604,445
Interest capitalised (Note 13)	342,153	399,499	342,153	376,901
Transfers to property, plant and equipment (Note 19)	(4,227,996)	(5,109,713)	(4,227,996)	(4,292,626)

At 31 December	6,413,554	6,695,573	6,413,554	6,695,573

Included in the Group's and the Company's balance as at 31 December 2008 is accumulated interest capitalised of RMB518 million (2007 : RMB553 million), at an average interest rate of 5.43% (2007 : 5.90%).

22. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries, all of which are limited liability companies established and operating in the PRC or Hong Kong, are as follows:

Company	Place and date of establishment	Paid-up capital 2008 RMB'000	Paid-up capital 2007 RMB'000	Attributable equity interest 2008	Attributable equity interest 2007	Principal activities
China Eastern Airlines Jiangsu Co., Ltd. ("CEA Jiangsu")	PRC 3 May 1993	880,000	880,000	63%	63%	Provision of airline services
China Cargo Airlines Co., Ltd. ("China Cargo")	PRC 22 July 1998	950,000	950,000	70%	70%	Provision of cargo carriage services
China Eastern Airlines Wuhan Co., Ltd. ("CEA Wuhan")	PRC 16 August 2002	600,000	600,000	96%	96%	Provision of airline services
Shanghai Eastern Flight Training Co., Ltd.	PRC 18 December 1995	473,000	473,000	95%	95%	Provision of flight training services
Shanghai Eastern Airlines Logistics Co., Ltd. ("Eastern Logistics")	PRC 23 August 2004	200,000	200,000	70%	70%	Provision of cargo logistics services
Eastern Airlines Hotel Co., Ltd.	PRC 18 March 1998	70,000	70,000	86%	86%	Provision of hotel services primarily to crew members
Shanghai Eastern Maintenance Co., Ltd.	PRC 27 November 2002	25,658	25,658	60%	60%	Provision of aircraft repair and maintenance services
China Eastern Airlines Development (HK) Co., Ltd.	PRC 20 May 1995	10,047	10,047	80%	80%	Provision of ticket sales and logistics

China Eastern Airlines (Shantou) Economics Development Co., Ltd.	PRC 18 March 1998	10,000	10,000	55%	55%	Provision of airline equipment sales
China Eastern Airline Gifting Co., Ltd.	PRC 17 August 2007	50,000	50,000	100%	100%	Provision of marketing services
Eastern Business Airline Service Co., Ltd.	PRC 27 September 2008	50,000	—	100%	—	Provision of airlines consultation services

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23. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	808,417	425,817	762,058	377,872
Share of post acquisition results/reserves	171,902	175,302	—	—
	980,319	601,119	762,058	377,872

The movement on investments in associates is as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	601,119	623,390	377,872	377,872
Costs of additional investments	384,186	—	384,186	—
Disposal of an indirectly held associate	(3,820)	(102,750)	—	—
Share of results of associates	69,668	58,312	—	—
Share of revaluation surplus/ (deficits) on available for sale investments held by associates	(19,080)	22,167	—	—
Dividend received during the year	(51,754)	—	—	—
At 31 December	980,319	601,119	762,058	377,872

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

Company	Place and date of establishment	Paid-up capital 2008 RMB'000	Paid-up capital 2007 RMB'000	Attributable equity interest 2008	Attributable equity interest 2007	Principal activities
Eastern Air Group Finance Co., Ltd. ("EAGF")	PRC 6 December 1995	400,000	400,000	25%	25%	Provision of financial services to group companies of CEA Holding
China Eastern Air Catering Investment Co., Ltd.	PRC 17 November 2003	350,000	350,000	45%	45%	Provision of air catering services
Jiangsu Huayu General Aviation Co., Ltd.	PRC 1 December 2004	110,000	110,000	27%	27%	Provision of aviation support services
Eastern Aviation Import & Export Co., Ltd ("EAIEC")	PRC 9 June 1993	80,000	80,000	45%	45%	Provision of aviation equipment, spare
Collins Aviation Maintenance Service Shanghai Ltd.	PRC 27 September 2002	57,980	57,980	35%	35%	Provision of airline electronic product maintenance services
Shanghai Dongmei Aviation Travel Co., Ltd. ("SDATC")	PRC 17 October 2004	31,000	31,000	27%	27%	Provision of traveling and accommodation agency services
Shanghai Hongpu Civil Airport Communication Co., Ltd.	PRC 18 October 2002	25,000	25,000	30%	30%	Provision of cable and wireless communication services
Eastern Aviation Advertising Service Co., Ltd.	PRC 04 March 1986	10,320	10,320	45%	45%	Provision of aviation advertising agency

("CAASC")							services
Joy Air Co., Ltd (Note (a))	PRC 28 March 2008		600,000	—	40%	—	Provision of regional airline transportation
Shanghai Pratt & Whitney Maintenance Company Limited (Note (b))	PRC 28 March 2008	USD	39,500	—	51%	—	Provision of maintenance Aircraft Engine of aircraft, engine and other related components maintenance services

Note:

(a) On 24 January 2008, the Company entered into an agreement with China Aviation Industry Corporation to establish Joy Air Company Limited (''Joy Air''). The Company holds a 40% interests of Joy air. As at 31 December 2008, the Company contributed RMB240 million in cash. Joy Air is still in preparation period as at the balance sheet date.

(b) In 2008, the Company entered into an agreement with a third party to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Company Limited (''Shanghai P&W''). Shanghai P&W's registered capital is USD40 million, in which the Company holds 51% interests. As at 31 December 2008, the Company contributed USD20,145,000 in cash to Shanghai P&W. According to the agreement, the third party has the power to govern the financial and operating policies of Shanghai P&W and hence the Company accounts for Shanghai P&W as an associate. At the balance sheet date, Shanghai P&W is still in preparation period.

(c) The Group's aggregated share of the revenues, results, assets and liabilities of its associates are as follows:

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit/(loss) RMB'000
2008	4,326,145	3,345,826	913,845	69,668
2007	2,194,818	1,593,699	919,495	58,312

24. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	270,208	268,892	301,802	301,802
Share of post-acquisition results/reserves	92,124	68,074	—	—
	362,332	336,966	301,802	301,802

The movement on investments in jointly controlled entities is as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
At 1 January	336,966	115,540	301,802	59,552
Other addition	—	209,340	—	242,250
Dividend received during the year	—	(18,000)	—	—
Share of results	24,050	30,086	—	—
Amortisation of previously unrecognised gain	1,316	—	—	—

At 31 December	362,332	336,966	301,802	301,802

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Particulars of the principal jointly controlled entities, all of which are limited liability companies established and operating in the PRC are as follows:

Company	Place and date of establishment	Paid-up capital 2008 RMB'000	Paid-up capital 2007 RMB'000	Attributable equity interest 2008	Attributable equity interest 2007	Principal activities
Shanghai Technologies Aerospace Co., Ltd. (''STA'') (Note (a))	PRC 28 September 2004	576,795	576,795	51%	51%	Provision of repair and maintenance services
Shanghai Eastern Union Aviation Wheels & Brakes Maintenance Services Overhaul Engineering Co., Ltd. (''Wheels & Brakes'')	PRC 28 December 1995	17,484	17,484	40%	40%	Provision of spare parts repair and maintenance services
Eastern China Kaiya System Integration Co., Ltd.	PRC 21 May 1999	10,000	10,000	41%	41%	Provision of computer systems development

Notes:

(a) Under a Joint Venture Agreement with the other joint venture partner of STA dated 10 March 2003, the Company has agreed to share control over the economic activities of STA. Any strategic financial and operating decisions relating to the activities of STA require the unanimous consent of the Company and the other joint venture partner.

(b) The Group's aggregated share of the revenues, results, assets and liabilities of its jointly controlled entities is as follows:

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit/(loss) RMB'000
2008	404,888	42,556	187,997	24,050
2007	382,501	45,535	205,188	30,086

25. OTHER LONG-TERM ASSETS

	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000

Deposits relating to aircraft under operating leases (Note (a))	509,887	508,903	360,061	361,453
Prepaid flight training fees (Note (b))	337,597	43,920	326,254	43,920
Prepaid staff benefits (Note (c))	26,888	40,567	21,401	32,398
Rental and renovation deposits	26,460	33,032	26,460	33,032
Other long-term receivables	40,724	34,329	31,175	28,046
	941,556	660,751	765,351	498,849

Notes:

(a) The fair value of deposits relating to aircraft held under operating leases of the Group and the Company are RMB473 million and RMB349 million (2007 : RMB441 million and RMB318 million), which are determined using the expected future payments discounted at market interest rates prevailing at the year end of 0.75%– 2.79% (2007 : 2.4%–3.06%).

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(b) Prepaid flight training expenses represent the training expenses prepaid for pilot undergraduates and pilots in service of the Group and are amortised over the relevant training periods for which the prepayments cover on a straight-line basis.

(c) Prepaid staff benefits represent subsidies to certain employees as an encouragement to purchase motor vehicles. The employees are required to continue serving the Group for six years from the date of receipt of the subsidies. If the employee leaves before the end of the six-year period, a refund by the employee is required to be calculated on a pro-rata basis. These subsidies are amortised over six years on the straight-line basis.

26. TRADE RECEIVABLES AND NOTES RECEIVABLE

The credit terms given to trade customers are determined on an individual basis, with the credit periods generally ranging from half a month to two months.

The aging analysis of trade receivables is as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	1,088,951	1,761,799	733,498	1,098,281
91 to 180 days	24,282	104,991	12,546	97,212
181 to 365 days	30,451	187,355	27,800	150,506
Over 365 days	103,919	101,769	63,286	84,914
	1,247,603	2,155,914	837,130	1,430,913
Less: provision for impairment of receivables	(101,081)	(59,907)	(86,635)	(55,757)
Trade receivables	1,146,522	2,096,007	750,495	1,375,156

The carrying amounts of the trade receivables approximate their fair value.

Trade receivables that were neither past due nor impaired relate to a large number of independent sales agents for whom there is no recent history of default.

As at 31 December 2008, trade receivables of RMB153 million (2007 : RMB360 million) were past due but not impaired. These relate to a number of independent sales agents for whom there is no recent history of default. The Group holds cash deposits of RMB175 million (2007 : RMB202 million) from these agents. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000

Up to 6 months	122,407	202,238	34,950	156,897
6 to 12 months	30,451	157,850	27,800	126,517
	152,858	360,088	62,750	283,414

As at 31 December 2008, trade receivables of RMB84 million (2007 : RMB44 million) were impaired and fully provided for. The remaining impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The factors considered by management in determining the impairment are described in Note 2(r).

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The ageing of impaired receivables is as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
12 to 24 months overdue	15,660	26,734	551	18,527
Over 24 months overdue	88,259	75,035	62,734	66,387
	103,919	101,769	63,285	84,914

Movements on the Group's provision for impairment of trade receivables are as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	59,907	90,405	55,757	87,195
Receivables written off during the year as uncollectible	(1,027)	(4,009)	(552)	(4,009)
Provision for impairment of receivables	42,201	—	31,430	—
Unused amounts reversed	—	(26,489)	—	(27,429)
At 31 December	101,081	59,907	86,635	55,757

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Currency				
Renminbi	899,905	1,800,355	552,572	1,159,012
US Dollars	51,075	89,944	17,580	15,255
HK Dollars	48,901	80,246	46,916	80,094
Korea Won	9,021	41,538	24,620	41,538
Euro	42,706	54,185	9,021	49,517
Japanese Yen	56,003	1,323	55,929	1,323
Other currencies	38,911	28,416	43,857	28,417
	1,146,522	2,096,007	750,495	1,375,156

The net impact of creation and release of provisions for impaired receivables have been included in 'Provision for impairment of trade and other receivables' in the income statement (Note 11). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying amount of receivable shown above.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Restricted bank deposits (Note (a))	2,159,848	—	2,082,075	—
Rebates receivable on aircraft acquisitions	930,665	929,652	881,395	875,786
Deposits relating to aircraft under finance leases — current portion	—	419,604	—	419,604
Ground Service Fees	310,452	337,166	178,300	215,296
Prepaid aircraft operating lease rentals	249,308	256,069	210,078	233,808
Rental deposits	88,001	130,348	74,477	79,393
Custom duties and value added tax recoverable	64,501	88,747	29,127	25,612
Prepayments for acquisition of flight equipment and other assets	36,480	60,325	34,707	36,340
Deposits with banks and a financial institution with original maturity over three months but less than a year (Note (b))	33,116	52,843	31,860	52,843
Others	253,848	280,895	184,757	211,927
	4,126,219	2,555,649	3,706,776	2,150,609

Notes:

(a) The restricted bank deposits represent: i) a deposit of RMB1,347 million pledged against 188 million US dollar loan (2007 : Nil); ii) a security deposit of US dollar 117 million (RMB796 million equivalent) for fuel option contracts (2007 : Nil); iii) a deposit of RMB17 million for notes payable (2007 : Nil.)

(b) As at 31 December 2008, the effective interest rate on deposits with banks with original maturity over three months but less than a year was 0.36% (2007 : 0.7%).

28. CASH AND CASH EQUIVALENTS

The carrying amounts of the Group's and Company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	2,623,585	585,797	1,636,815	322,447
US Dollars	494,249	736,951	441,671	460,383

Euro	126,695	92,205	95,622	60,122
Japanese Yen	37,657	70,996	22,705	57,480
Pounds Sterling	11,016	16,141	11,016	16,141
Australian Dollars	18,922	14,991	18,915	14,991
Canadian Dollars	12,394	25,332	12,245	25,332
Singapore Dollars	42,617	1,116	42,617	1,116
Others	83,875	111,715	80,335	82,885
	3,451,010	1,655,244	2,361,941	1,040,897

29. TRADE PAYABLES AND NOTES PAYABLE

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

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	3,310,710	1,465,079	3,109,316	1,228,690
91 to 180 days	1,249,400	1,126,091	1,241,243	1,125,495
181 to 365 days	267,785	449,391	123,544	221,750
Over 365 days	316,963	97,319	273,127	86,781
	5,144,858	3,137,880	4,747,230	2,662,716

As at 31 December 2008, notes payable totaling RMB3,840 million (2007 : RMB1,616 million) were unsecured. Discount rates ranged from 2.9% to 5.9% (2007 : 3.5% to 5.5%) and all notes are repayable within six months.

30. OTHER PAYABLES AND ACCRUED EXPENSES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued fuel cost	3,841,660	2,348,932	3,534,281	2,180,773
Accrued take-off and landing charges	1,879,751	1,036,423	1,563,049	838,218
Accrued aircraft overhaul expenses	1,256,115	1,184,529	986,055	978,089
Other accrued operating expenses	1,417,988	928,267	1,251,514	841,311
Accrued salaries, wages and benefits	976,551	1,067,245	786,964	861,035
Duties and levies payable	545,482	858,966	423,527	646,588
Staff housing allowance (Note 37(b))	386,065	363,110	317,918	332,156
Deposits received from ticket sales agents	320,254	339,064	229,399	268,064
Current portion of other long-term liabilities (Note 34)	130,460	135,859	121,178	135,859
Current portion of post-retirement benefit obligations (Note 36(b))	46,461	34,425	43,801	31,707
Others	1,346,388	1,294,425	1,229,272	1,190,894
	12,147,175	9,591,245	10,486,958	8,304,694

31. OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2008, the Group and the Company had 68 and 61 aircraft (2007 : 55 and 48 aircraft) respectively under finance leases. Under the terms of the leases, the Group/the Company has the option to purchase, at or near the end of the lease terms, certain aircraft at fair market value and others 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.

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The future minimum lease payments (including interest), and the present value of the minimum lease payments under finance leases are as follows:

	Group					
	2008			2007		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	2,765,969	848,980	1,916,989	3,356,665	811,442	2,545,223
In the second year	2,704,499	688,327	2,016,172	2,206,135	638,882	1,567,253
In the third to fifth year inclusive	7,805,669	1,602,339	6,203,330	5,714,466	1,509,114	4,205,352
After the fifth year	11,868,053	1,195,645	10,672,408	9,331,048	1,196,666	8,134,382
Total	25,144,190	4,335,291	20,808,899	20,608,314	4,156,104	16,452,210
Less: amount repayable within one year	(2,765,969)	(848,980)	(1,916,989)	(3,356,665)	(811,442)	(2,545,223)
Long-term portion	22,378,221	3,486,311	18,891,910	17,251,649	3,344,662	13,906,987

	Company					
	2008			2007		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	2,458,559	743,497	1,715,062	2,993,378	676,597	2,316,781
In the second year	2,400,584	594,223	1,806,361	1,866,827	524,660	1,342,167
In the third to fifth year	6,892,822	1,380,412	5,512,410	4,725,108	1,230,149	3,494,959

inclusive						
After the fifth year	10,534,868	1,039,530	9,495,338	7,574,768	956,172	6,618,596
Total	22,286,833	3,757,662	18,529,171	17,160,081	3,387,578	13,772,503
Less: amount repayable within one year	(2,458,559)	(743,497)	(1,715,062)	(2,993,378)	(676,597)	(2,316,781)
Long-term portion	19,828,274	3,014,165	16,814,109	14,166,703	2,710,981	11,455,722

The fair value of obligations under finance leases of the Group and the Company are RMB21,037 million and RMB18,640 million (2007 : RMB16,577 million and RMB13,863 million respectively), which are determined using the expected future payments discounted at market interest rates prevailing at the year end.

At 31 December 2008, the Group and the Company had bank deposits totaling nil (2007 : RMB420 million) pledged as collateral under certain finance lease arrangements.

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32. BORROWINGS

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Long-term bank borrowings				
— secured	3,350,114	3,994,947	2,189,950	3,376,847
— unsecured	5,237,938	7,374,360	4,855,130	6,273,736
	8,588,052	11,369,307	7,045,080	9,650,583
Current				
Long-term bank borrowings				
— secured	1,133,836	772,286	742,176	615,626
— unsecured	5,905,655	2,533,233	5,772,969	2,288,940
Short-term bank borrowings				
— secured	1,284,236	—	1,222,953	—
— unsecured	18,189,593	15,189,002	16,325,335	13,039,208
	26,513,320	18,494,521	24,063,433	15,943,774
Total borrowings	35,101,372	29,863,828	31,108,513	25,594,357
The borrowings are repayable as follows:				
Within one year	26,513,320	18,494,521	24,063,433	15,943,774
In the second year	4,147,845	5,927,098	3,569,348	5,515,186
In the third to fifth year inclusive	3,665,352	4,216,517	2,977,920	3,266,554
After the fifth year	774,855	1,225,692	497,812	868,843
Total borrowings	35,101,372	29,863,828	31,108,513	25,594,357

Notes:

As at 31 December 2008, the secured bank borrowings of the Group and the Company for the purchases of aircraft were secured by the related aircraft with an aggregate net book amount of RMB8,723 million and RMB7,209 million respectively (2007 : RMB9,865 million and RMB8,990 million) (Note 19).

Certain unsecured bank borrowings of the Group and the Company totaling of RMB357 million and Nil (2007 : RMB1,008 million and Nil respectively) were guaranteed by CEA Holding (Note 44).

Certain unsecured bank borrowings of the Group and the Company totaling of RMB600 million (2007 : Nil) were guaranteed by a third party bank.

Explanation of Responses:

The terms of the long-term bank loans are summarised as follows:

Currency	Interest rate and final maturities	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
RMB denominated	Interest rates ranging from 4.52% to 8.36% per annum with final maturities through to 2017.	6,898,178	6,132,551	5,042,498	4,270,211
U.S. dollar denominated	Interest rates ranging from 3 month LIBOR +0.25% to 6 month LIBOR +3% per annum with final maturities through to 2019	8,617,707	8,418,967	8,406,069	8,161,630
EURO denominated	Interest rate is 6 months LIBOR +0.6% with final maturity through 2010.	111,658	123,308	111,658	123,308
Total long-term bank loans		15,627,543	14,674,826	13,560,225	12,555,149

Note:

(a) The fair value of long-term borrowings of the Group and the Company are RMB15,826 million and RMB13,684 million (2007 : RMB14,111 million and RMB12,124 million), which are determined using the expected future payments discounted at prevailing market interest rates available to the Group and the Company for financial instruments with substantially the same terms and characteristics at the balance sheet date.

(b)

Short-term borrowings of the Group and the Company are repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. As at 31 December 2008, the interest rates relating to such borrowings ranged from 2.7% to 7.47% per annum (2007 : 4.39% to 6.72% per annum). During the year ended 31 December 2008, the weighted average interest rate on short-term bank loans was 6.36 % per annum (2007 : 5.75% per annum).

(c) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	21,955,769	12,528,550	18,262,088	8,590,026
US Dollars	13,007,688	17,196,836	12,734,767	16,874,186
Euro	111,658	130,145	111,658	130,145
HK Dollar	26,257	8,297	—	—
	35,101,372	29,863,828	31,108,513	25,594,357

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33. PROVISION FOR OPERATING LEASE AIRCRAFT RETURN CONDITION CHECK

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	956,910	510,621	737,371	429,590
Additional provisions	618,555	446,289	431,319	307,781
Utilisation	(41,447)	—	—	—
At 31 December	1,534,018	956,910	1,168,690	737,371
Less: current portion	(213,830)	—	(139,710)	—
Long-term portion	1,320,188	956,910	1,028,980	737,371

Provision of operating lease aircraft return condition check represents the present value of estimated costs of major return check for aircraft under operating leases as the Group has the responsibility to fulfill certain return conditions under relevant leases.

34. OTHER LONG-TERM LIABILITIES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Long-term duties and levies payable	805,794	584,791	713,522	501,867
Fair value of unredeemed points awarded under the Group's frequent flyer program	364,858	378,361	364,858	378,361
Long-term payable to the Bureau of 2010 Expo Shanghai (Note 18(b))	177,883	232,811	177,883	232,811
Long-term payable to Aviation China Civil Flight Institute (Note (a))	30,000	60,000	30,000	60,000
Deferred gains on sale and leaseback transactions of aircraft	14,549	21,011	14,549	21,011
Other long-term payable	58,135	101,582	56,319	101,582
	1,451,219	1,378,556	1,357,131	1,295,632
Less: Current portion	(130,460)	(135,859)	(121,178)	(135,859)
Long-term portion	1,320,759	1,242,697	1,235,953	1,159,773

Notes:

(a) The balance is unsecured, interest bearing at an effective rate of 6.21% per annum and is repayable by annual instalments of RMB30 million up to year 2009.

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35. DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Deferred tax assets				
— Deferred tax asset to be utilised after 12 months	79,802	111,874	—	—
— Deferred tax asset to be utilised within 12 months	2,145	1,337	—	—
	81,947	113,211	—	—
Deferred tax liabilities				
— Deferred tax liability to be realised after 12 months	(55,444)	(50,369)	—	—
— Deferred tax liability to be realised within 12 months	(2,145)	—	—	—
	(57,589)	(50,369)	—	—

Movements in the net deferred taxation asset/(liability) are as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
At 1 January	62,842	13,687	—	—
(Charged)/credited to income statement (Note 14)	(38,484)	49,155	—	—
At 31 December	24,358	62,842	—	—

The deferred tax assets and liabilities (prior to the offsetting of balances within the same tax jurisdiction) were made up of the taxation effects of the following:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
Tax losses carried forward	1,846	317,392	—	313,755
Impairment provision for obsolete flight equipment spare parts	78,634	138,783	74,872	136,614
Impairment provision for receivables	68,553	79,195	52,872	44,348
Impairment provision for property, plant and equipment	170,808	—	170,451	—
Provision for aircraft overhaul expense	152,231	96,834	135,196	56,985
Provision for frequent flyer program	13,619	—	13,619	—
Financial derivative liabilities	313,488	10,449	313,488	10,449
Provision for post-retirement benefits	271,672	351,283	247,424	306,694
	1,070,851	993,936	1,007,922	868,845
Deferred tax liabilities:				
Depreciation and amortisation	(1,024,173)	(931,094)	(985,602)	(868,845)
Financial derivative assets	(22,320)	—	(22,320)	—
	(1,046,493)	(931,094)	(1,007,922)	(868,845)

Movements of the net deferred tax assets/(liabilities) of the Group for the year:

	At the beginning of the year RMB'000	(Charged)/ credited to income statement RMB'000	(Charged)/ credited to equity RMB'000	At the end of the year RMB'000
For the year ended 31 December 2008				
Tax losses carried forward	317,392	(315,546)	—	1,846
Impairment provision for obsolete flight equipment spare parts	138,783	(60,149)	—	78,634
Impairment provision for receivables	79,195	(10,642)	—	68,553
Impairment provision for property, plant and equipment	—	170,808	—	170,808
Provision for aircraft overhaul expense	96,834	55,397	—	152,231
Provision for frequent flyer program	—	13,619		13,619
Financial derivative liabilities	10,449	303,039		313,488
Provision for post-retirement benefits	351,283	(79,611)	—	271,672
	993,936	76,915	—	1,070,851
Depreciation and amortisation	(931,094)	(93,079)	—	(1,024,173)
Financial derivative assets	—	(22,320)	—	(22,320)
Net deferred tax assets/(liabilities)	62,842	(38,484)	—	24,358
For the year ended 31 December 2007				
Tax losses carried forward	90,335	227,057	—	317,392
Impairment provision for obsolete flight equipment spare parts	68,574	70,209	—	138,783
Impairment provision for receivables	57,467	21,728	—	79,195
Provision for aircraft overhaul expense	77,000	19,834	—	96,834
Financial derivative liabilities	20,823	(10,374)	—	10,449
Provision for post-retirement benefits	216,570	134,713	—	351,283
	530,769	463,167	—	993,936
Depreciation and amortisation	(517,082)	(414,012)	—	(931,094)
Net deferred tax assets	13,687	49,155	—	62,842

In accordance with the PRC tax law, tax losses can be carried forward to offset against future taxable income for a period of five years. As at 31 December 2008, the Group and the Company had tax losses carried forward of approximately RMB11,465 million and RMB8,778 million respectively (2007 : RMB5,380 million and RMB4,119 million respectively) which will expire between 2009 and 2013, and which are available to set off against the Group and the Company's future taxable income. As at 31 December 2008, the Group and the Company did not recognise RMB2,864 million and RMB2,195 million respectively (2007 : RMB1,035 million and RMB718 million respectively) of deferred tax assets arising from tax losses available as management did not consider it probable that such tax losses would be realised before they expire.

36. RETIREMENT BENEFIT PLANS AND POST-RETIREMENT BENEFITS

(a) Defined contribution retirement schemes

(i) Pension

The Group companies participate in defined contribution retirement schemes organised by municipal governments of the various provinces in which the Group companies operate, and substantially all of the Group's PRC employees are eligible to participate in the Group companies' retirement schemes. The Group companies are required to make annual contributions to the schemes at rates ranging from 20% to 22% on the employees' prior year salary and allowances. Employees are required to contribute to the schemes at rates ranging from 7% to 8% of their basic salaries. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under these schemes. For the year ended 31 December 2008, the Group's pension cost charged to the consolidated income statement amounted to RMB360 million (2007 : RMB296 million).

(ii) Medical insurance

The majority of the Group's PRC employees participate in the medical insurance schemes organised by the municipal governments, under which the Group and its employees are required to contribute to the scheme approximately 12% and 2%, respectively, of the employee's basic salaries. For those employees who participate in these schemes, the Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended 31 December 2008, the Group's medical insurance contributions charged to the income statement amounted to RMB93 million (2007 : RMB77 million).

(b) Post-retirement benefits

In addition to the above retirement schemes, the Group provides retirees with other post-retirement benefits including transportation subsidies, social function activities subsidies and others. The expected cost of providing these post-retirement benefits is actuarially determined and recognised by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and employees' turnover ratio.

The post-retirement benefit obligations recognised in the balance sheets are as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Present value of unfunded post-retirement benefit obligations	4,481,420	2,155,393	3,941,724	1,861,036
Unrecognised actuarial losses	(2,965,835)	(750,266)	(2,611,045)	(634,259)
Post-retirement benefit obligations	1,515,585	1,405,127	1,330,679	1,226,777
Less: current portion (Note 30)	(46,461)	(34,425)	(43,801)	(31,707)
Long-term portion	1,469,124	1,370,702	1,286,878	1,195,070

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Changes in post-retirement benefit obligations are as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,405,127	1,323,684	1,226,777	1,173,380
Total expenses charged in the income statement	200,603	170,670	181,309	128,057
Payments	(90,145)	(89,227)	(77,407)	(74,660)
At 31 December	1,515,585	1,405,127	1,330,679	1,226,777

The costs of post-retirement benefits are recognised under wages, salaries and benefits in the income statements as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Current service cost	74,478	73,416	71,552	55,624
Interest cost	102,009	83,858	89,145	63,678
Actuarial losses recognised	24,116	13,396	20,612	8,755
Total (Note 9)	200,603	170,670	181,309	128,057

The principal actuarial assumptions at the balance sheet date are as follows:

	Group and Company	
	2008	2007
Discount rate	3.75%	4.75%
Annual rate of increase of per capita benefit payment	3%	2.5%
Employee turnover rate	3.00%	3.0%
Mortality rate	8.80%	8.43%
Medical inflation rate	5%	2.5%–5%

37. STAFF HOUSING BENEFITS

(a) Staff housing fund

In accordance with the PRC housing reform regulations, the Group is required to contribute to the State- sponsored housing fund at rates ranging from 7% to 15% (2007 : 7% to 15%) of the specified salary amount of its PRC employees. At the same time, the employees are required to contribute an amount equal to the Group's contribution. The employees are entitled to claim the entire sum of the fund contributed under certain specified withdrawal circumstances. For the year ended 31 December 2008, the Group's contributions to the housing funds amounted to RMB282 million (2007 : RMB285 million) which has been charged to the consolidated income statement. The staff housing fund payable as at 31 December 2008 is RMB25 million (2007 : RMB17 million). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Staff housing allowances

The Group also provides cash staff housing allowances to eligible employees who have not been allocated with any housing quarters or who have not been allocated with a quarter above the minimum as set out in the Group's staff housing allowance policy introduced in October 2003 (the ''Policy'') based on the area of quarter to which they are entitled and the unit price as set out in the Policy.

The total entitlement of an eligible employee is principally vested over a period of 20 years. Upon an eligible employee's resignation, his or her entitlement will cease and any unpaid entitlement related to past service up to the date of resignation will be paid. As at 31 December 2008, the present obligation of the provision for employee's staff housing entitlement is RMB386 million (2007 : RMB363 million).

For the year ended 31 December 2008, the staff housing benefit provided under the Staff Housing Allowance Policy amounted to RMB123 million (2007 : RMB53 million) which has been charged to the consolidated income statement.

38. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company			
	Assets		Liabilities	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December				
Interest rate swaps (Note (a))	988	33,232	182,971	39,542
Forward foreign exchange contracts (Note (b))	—	2,847	138,760	1,719
Fuel option contracts (Note (c))	123,010	59,468	6,319,868	535
Total	123,998	95,547	6,641,599	41,796
Less: current portion				
— Interest rate swaps	—	(27,155)	(41,668)	(17,984)
— Forward foreign exchange contracts	—	(2,847)	(94,539)	(1,719)
— Fuel option contracts	(123,010)	(59,468)	(6,319,868)	(535)
	(123,010)	(89,470)	(6,456,075)	(20,238)
Non-current portion	988	6,077	185,524	21,558

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

Notes:

(a) Interest rate swaps

The Group uses interest rate swaps to reduce the risk of changes in market interest rates (Note 3(a)(ii)). The Group's interest rate swaps qualify for hedge accounting. The interest rate swaps entered into by the Group are generally for swapping variable rates, usually referenced to LIBOR, into fixed rates and are accounted for as cashflow hedges. Other interest rate swaps are for swapping fixed rates into variable rates and are accounted for as fair value hedges. As at 31 December 2008, the notional amount of the outstanding interest rate swap agreements was approximately US$471 million (2007 : US$624 million). These agreements will expire between 2009 and 2016.

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Realised and unrealised gains and losses arising from the valuation of these interest rate swaps have been dealt with in the income statements as follows:

	Group 2008 RMB'000	Group 2007 RMB'000
Realised (losses)/gain (recorded in finance costs)	10,083	59,862
Unrealised mark to market (losses)/gains		
— cash flow hedges (recognised in equity)	(126,138)	(79,783)
— fair value hedges (recognised in the income statement)	(49,535)	(8,824)
	(165,590)	(28,745)

(b) Forward foreign exchange contracts

The Group uses forward foreign exchange contracts to reduce the risk of changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies (Note 3(a)(i)). The Group's forward foreign exchange contracts qualify for hedge accounting. These contracts are generally for selling Japanese Yen and purchasing U.S. dollars at fixed exchange rates and are accounted for as cash flow hedges. Other forward foreign exchange contracts are for selling Japanese Yen and purchasing U.S. dollars at variable exchange rates and are accounted for as fair value hedges. As at 31 December 2008, the notional amount of the outstanding currency forward contracts was approximately US$121 million (2007 : US$33 million), which will expire between 2009 and 2017.

Realised and unrealised gains and losses arising from the valuation of these contracts have been dealt with in the income statements as follows:

	Group 2008 RMB'000	Group 2007 RMB'000
Realised (losses)/gain (recorded in finance income)	14,759	17,932
Unrealised mark to market (losses)/gains		
— cash flow hedges (recognised in equity)	(44,222)	1,586
— fair value hedges (recognised in the income statement)	(95,666)	(3,787)
	(125,129)	15,731

(c)Fuel option contracts

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

None of the fuel hedging contracts entered into by the Group in 2008 or which remained open at 31 December 2008 qualified for hedge accounting. The Group is required to account for the fair value of the difference between the spot price of fuel and the price at which the counterparties are effectively entitled to sell in future periods as unrealised mark to market losses and recognised these losses in the income statements immediately.

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

	Group	
	2008	2007
	RMB'000	RMB'000
Realised (losses)/gains (recorded in aircraft fuel)	(8,577)	120,171
Unrealised mark to market (losses)/gains (recorded in loss on fair value movements of financial derivatives)	(6,255,791)	96,576
	(6,264,368)	216,747

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

39. SHARE CAPITAL

	2008	2007
	RMB'000	RMB'000
Registered, issued and fully paid of RMB1.00 each		
Circulating shares with restricted transfer held by CEA Holding and employees	2,904,000	2,904,000
A shares listed on The Shanghai Stock Exchange	396,000	396,000
H shares listed on The Stock Exchange of Hong Kong Limited	1,566,950	1,566,950
	4,866,950	4,866,950

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

On 4 January 2007, the Company's share reform plan was approved by the Ministry of Commerce and implemented on 9 January 2007. In this connection, CEA Holding granted 96 million shares in total to the holders of the circulating shares and the original non-circulating shares held by CEA Holding were granted the status of listing subject to certain circulating conditions.

40. RESERVES

Group

	Share premium RMB'000	Statutory and discretionary reserve (Note (a)) RMB'000	Revaluation reserve RMB'000	Capital reserve (Note (b)) RMB'000	Hedging reserve (Note 38) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2007, as restated	1,006,455	428,808	23,816	(720,057)	53,167	(3,621,106)	(2,828,917)
Unrealised loss on cashflow hedges (Note 38)	—	—	—	—	(79,783)	—	(79,783)
Realised gains on cashflow hedges (Note 38)	—	—	—	—	1,586	—	1,586
Fair value movements of available for sale investments held by associates	22,167	—	—	—	—	—	22,167
Profit attributable to equity holders of the Company	—	—	—	—	—	378,568	378,568
Adjustments to statutory and discretionary reserves	—	(428,808)	—	—	—	428,808	—
At 31 December 2007	1,028,622	—	23,816	(720,057)	(25,030)	(2,813,730)	(2,506,379)
At 1 January 2008, as restated	1,028,622	—	23,816	(720,057)	(25,030)	(2,813,730)	(2,506,379)
Unrealised loss on cashflow hedges (Note 38)	—	—	—	—	(170,525)	—	(170,525)
Realised gains on cashflow hedges (Note 38)	—	—	—	—	165	—	165
Fair value movements of available for sale	(19,080)	—	—	—	—	—	(19,080)

investments held by associates							
Loss attributable to equity holders of the Company	—	—	—	—	—	(15,268,532)	(15,268,532)
At 31 December 2008	1,009,542	—	23,816	(720,057)	(195,390)	(18,082,262)	(17,964,351)

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	Company					
	Share premium RMB'000	Statutory and discretionary reserve (Note (a)) RMB'000	Capital reserve (Note (b)) RMB'000	Hedging reserve (Note 38) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2007, as restated	1,006,455	182,336	(720,057)	53,167	(3,160,413)	(2,638,512)
Unrealised loss on cashflow hedges (Note 38)	—	—	—	(79,783)	—	(79,783)
Realised gains on cashflow hedges (Note 38)	—	—	—	1,586	—	1,586
Adjustments to statutory and discretionary reserves	—	(182,336)	—	—	182,336	—
Profit for the year	—	—	—	—	505,330	505,330
At 31 December 2007	1,006,455	—	(720,057)	(25,030)	(2,472,747)	(2,211,379)
At 1 January 2008, as restated	1,006,455	—	(720,057)	(25,030)	(2,472,747)	(2,211,379)
Unrealised loss on cashflow hedges (Note 38)	—	—	—	(170,525)	—	(170,525)
Realised gains on cashflow hedges (Note 38)	—	—	—	165	—	165
Loss for the year	—	—	—	—	(13,877,388)	(13,877,388)
At 31 December 2008	1,006,455	—	(720,057)	(195,390)	(16,350,135)	(16,259,127)

Notes:

(a) Statutory and Discretionary Reserves

Pursuant to the PRC regulations and the Companies' Articles of Association, each of the Group companies is required to transfer 10% of its profit for the year, as determined under the PRC Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of the Group company's registered capital. The statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Each of the Group companies is permitted to transfer 5% of its profit for the year as determined under the PRC Accounting Regulations, to a discretionary common reserve fund. The transfer to this reserve is subject to approval at shareholders' meetings.

No profit appropriation by the Company to the discretionary common reserve fund was made for the year ended 31 December 2008 (2007 : nil).

(b) 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.

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41. NON-CURRENT ASSETS HELD FOR SALE

In December 2006, the Board of Directors passed a resolution to dispose of certain older aircrafts and related flight equipments in the forthcoming 12-months. Accordingly, these aircrafts together with related flight equipments and spare parts were classified as non-current assets held for sale as at 31 December 2006. Despite of the Company's continuing effort to locate and negotiate with potential buyers, no agreement to dispose these assets has been reached. It is management's intention to dispose these assets in the forthcoming 12-months and management is continuing to take active step to locate potential buyers of these assets. They have therefore been still classified as non-current assets held for sale as of 31 December 2008. An impairment loss of RMB235 million has been recognised in the income statement in relation to these assets with reference to the estimated market values as at the balance sheet date (Note 10(c)).

42. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2008 RMB'000	2007 RMB'000
(Loss)/gain before income tax	(15,256,009)	377,938
Adjustments for:		
Depreciation of property, plant and equipment	4,755,622	4,694,888
Gains on disposals of property, plant and equipment	(267,084)	(674)
Share of results of associates	(69,668)	(58,312)
Share of results of jointly controlled entities	(24,050)	(30,086)
Amortisation of lease prepayments	25,940	24,847
Net foreign exchange gains	(1,970,990)	(2,023,032)
Amortisation of deferred revenue	(19,965)	(12,594)
Loss/(gain) arising from fair value movements of derivative financial instruments	6,400,992	(96,575)
Consumption of flight equipment spare parts	476,282	468,888
Impairment provision trade and other receivables	39,338	10,481
Provision for post-retirement benefits	200,603	170,670
Provision for operating lease aircraft return condition check	618,556	446,289
Impairment loss	2,976,678	227,456
Interest income	(89,275)	(96,849)
Interest expenses	2,328,147	1,978,550
Gain on disposal of an associate and available-for-sale financial assets	(13,557)	—
Gain of contribution to a joint controlled entity	—	(31,620)
Gain on disposal of a subsidiary	—	(54,441)
Operating profit before working capital changes	111,560	5,995,824

Explanation of Responses:

	2008 RMB'000	2007 RMB'000
Changes in working capital		
Flight equipment spare parts	(529,068)	(409,392)
Trade receivables	909,701	(478,550)
Amount due from related companies	(223,112)	349,897
Prepayments, deposits and other receivables	(216,706)	(336,890)
Sales in advance of carriage	(197,331)	319,550
Trade payables and notes payables	2,006,978	(1,888,884)
Amounts due to related companies	(187,819)	29,571
Other payables and accrued expenses	1,901,892	(194,694)
Other long-term liabilities	(431,956)	(74,081)
Provision for operating lease aircraft return condition check	(41,448)	—
Staff housing allowances	(100,428)	(76,381)
Post-retirement benefit obligations	(90,145)	(89,227)
Operating lease deposits	30,348	(3,909)
	2,830,906	(2,852,990)
Cash generated from operations	2,942,466	3,142,834

(b) Non-cash transactions

	2008 RMB'000	2007 RMB'000
Financing activities not affecting cash:		
Finance lease obligations incurred for acquisition of aircraft	7,964,792	8,395,965

43. COMMITMENTS

(a) Capital commitments

The Group and the Company had the following capital commitments:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Authorised and contracted for:				
— Aircraft, engines and flight equipment	52,533,736	50,852,865	52,533,736	50,852,865
— Other property, plant and equipment	130,180	353,771	111,810	289,971

	52,663,916	51,206,636	52,645,546	51,142,836
Authorised but not contracted for:				
— Other property, plant and equipment	5,235,712	11,326,338	4,874,680	10,709,963
	5,235,712	11,326,338	4,874,680	10,709,963
	57,899,628	62,532,974	57,520,226	61,852,799

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Contracted expenditures for the above aircraft and flight equipment, including deposits prior to delivery, subject to future inflation increases built into the contracts and any discounts available upon delivery of the aircraft, if any, were expected to be paid as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	8,852,380	17,127,081	8,852,380	17,127,081
In the second year	13,174,190	15,056,943	13,174,190	15,056,943
In the third year	9,051,539	13,960,033	9,051,539	13,960,033
In the fourth year	9,224,482	2,531,964	9,224,482	2,531,964
Over four years	12,231,145	2,176,844	12,231,145	2,176,844
	52,533,736	50,852,865	52,533,736	50,852,865

(b) Operating lease commitments

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

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Aircraft, engines and flight equipment				
Within one year	2,671,355	2,527,072	2,145,554	2,235,504
In the second year	2,330,080	2,331,741	2,008,984	2,124,109
In the third to fifth year inclusive	4,598,624	4,991,164	4,432,529	4,925,469
After the fifth year	4,100,560	5,341,362	4,028,862	5,341,361
	13,700,619	15,191,339	12,615,929	14,626,443
Land and buildings				
Within one year	202,540	87,410	46,701	84,482
In the second year	124,643	50,683	21,066	49,363
In the third to fifth year inclusive	325,423	40,888	16,323	40,026
After the fifth year	2,398,361	29,846	29,276	29,846
	3,050,967	208,827	113,366	203,717
	16,751,586	15,400,166	12,729,295	14,830,160

44. RELATED PARTY TRANSACTIONS

The Group is controlled by CEA Holding, which owns approximately 59.67% of the Company's shares as at 31 December 2008. The aviation industry in the PRC is administrated by the CAAC. CEA Holding and the Group is ultimately controlled by the PRC government, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the ''SOEs'').

(a) Related party transactions

The Group sells air tickets through sales agents and is therefore likely to have extensive transactions with other state-controlled enterprises, and the employees and their close family members of SOEs while such employees are on corporate business. These transactions are carried out on normal commercial terms that are consistently applied to all of the Group's customers. Due to the large volume and the pervasiveness of these transactions, management is unable to determine the aggregate amount of the transactions for disclosure. Therefore, retail transactions with these related parties are not disclosed herein. The Directors of the Company believe that meaningful related party disclosures on these retail transactions have been adequately made.

The other related party transactions are:

		Income/ (expense or payments)	
Nature of transaction	Related party	2008 RMB'000	2007 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding:			
Interest income on deposits at an average rate of 0.36% per annum (2007: 0.72% per annum)	EAGF*	30,766	9,717
Interest expense on loans at rate of 4.87% per annum (2007: 5.42% per annum)	EAGF*	(22,267)	(33,590)
Ticket reservation service charges for utilisation of computer reservation system	Travel Sky Technology Limited	(241,206)	(241,161)
Commission expense on air tickets sold	SDATC*	(610)	(9,220)
on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold	Shanghai Tourism (HK) Co., Ltd	(1,696)	(6)

Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment	EAIEC*	(47,257)	(34,643)
Repairs and maintenance expense for aircraft and engines	Wheels & Brakes	(64,653)	(56,764)
	STA	(131,081)	(100,270)
Supply of food and beverages	Shanghai Eastern Air Catering Co., Ltd	(267,117)	(243,895)
	Yunnan Eastern Air Catering Investment Co., Ltd.	(40,836)	(37,782)
	Xian Eastern Air Catering Investment Co., Ltd.	(36,526)	(28,780)
	Qingdao Eastern Air Catering Investment Co., Ltd	(27,480)	(20,101)

Nature of transaction	Related party	Income/ (expense or payments) 2008 RMB'000	2007 RMB'000
Disposal of a subsidiary	CEA Holding	—	461,916
Disposal of a associate	CEA Holding	32,972	—
Advertising expense	CAASC	(3,595)	(14,370)
Automobile maintenance fee	CEA Development Co. Ltd	(23,595)	(18,574)
Land and building rental	CEA Holding	(55,399)	(55,399)
Purchase of other fixed assets	CEA Northwest Co. Ltd	—	(67,305)
With CAAC and its affiliates:			
Civil aviation infrastructure levies paid	CAAC	(769,849)	(781,613)
Aircraft insurance premiums paid through CAAC which entered into the insurance policies on behalf of the Group	CAAC	(134,176)	(136,875)
With other SOE:			
Take-off and landing fee charges	State-controlled airports	(4,323,382)	(4,152,888)
Purchase of aircraft fuel	State-controlled fuel suppliers	(14,020,301)	(11,120,186)
Ticket reservation service charges for utilisation of computer reservation system	Travel Sky Technology Limited	(241,206)	(241,161)
Interest income on deposits at an	State-controlled banks	14,778	15,411

average rates of 0.36% per annum (2006: 0.72% per annum)			
Interest expense on loans at an average rate of 5.96% per annum (2007: 5.47% per annum)	State-controlled banks	(1,872,553)	(1,406,812)
Commission expense on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of the value of tickets sold	Other PRC airlines	(65,832)	(70,285)
Supply of food and beverages	Other state-control enterprises	(567,071)	(511,766)

*EAGF is also 25% owned associate of the Group; SDATC and EAIEC are both 45% owned associates of the Group.

(b) Balances with related companies

(i) Amounts due from related companies

Company	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
SDATC	9,714	16,378	9,714	16,378
Shanghai Tourism (HK) Co., Ltd	4,020	2,914	4,020	2,914
EAIEC	181,788	26,166	181,788	26,166
China Cargo	—	—	1,091,055	1,535,804
CEA Wuhan	—	—	208,928	—
Other related companies	12,767	19,997	22,836	37,070
Total	208,289	65,455	1,518,341	1,618,332

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

(ii) Amounts due to related companies

Company	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
EAIEC	(241,560)	(470,349)	(182,277)	(401,178)
CEA Holding	(69,497)	(40,214)	(69,497)	(40,214)
Shanghai Eastern Airlines Catering Co. Ltd.	(46,580)	(60,718)	(46,580)	(60,718)
Yunnan Eastern Air Catering Investment Co., Ltd.	(665)	(488)	(665)	(488)
CAASC	(164)	(2,550)	(164)	(2,550)
CEA Northwest	—	(64,895)	—	—
Eastern Logistics	—	—	(134,213)	(31,503)
CEA Jiangsu	—	—	(157,885)	(193,193)
Other related companies	(54,660)	(32,379)	(104,522)	(47,578)
Total	(413,126)	(671,593)	(695,803)	(777,422)

Except for amounts due to EAGF and CEA Holding, which are reimbursement in nature, all other amounts due to related companies are trade in nature, interest free and payable within normal credit terms given by trade creditors.

(iii) Short-term deposits and short-term loans with an associate

	Average interest rate		Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Short-term deposits (included in Prepayments, Deposits and Other Receivables) ''EAGF''	0.4%	0.7%	1,202,892	408,151	427,363	90,793
Short-term loans (included in Borrowings) ''EAGF''	4.3%	5.3%	295,181	260,351	295,181	180,351

(iv) State-controlled banks and other financial institutions

	Average interest rate		Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Bank deposits (included in cash and cash equivalents)	0.4%	0.7%	1,762,245	845,719	1,601,059	630,783
Long-term bank borrowings	5.3%	5.7%	14,577,150	13,062,353	12,671,832	11,104,676

(c) Guarantees by holding company

As at 31 December 2008, bank loans of the Group and the Company with an aggregate amount of RMB357 million and Nil respectively (2007 : RMB1,008 million and Nil) were guaranteed by CEA Holding (Note 32).

(d) Key management compensation

	2008 RMB'000	2007 RMB'000
Salaries, bonus, allowances and benefits	1,614	1,805

45. ULTIMATE HOLDING COMPANY

The Directors regard CEA Holding, a state-owned enterprise established in the PRC, as being the ultimate holding company.

46. CONTINGENT LIABILITIES

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 on 21 November 2004, sued the Company in a U.S. court for compensation. On 5 July 2007, pursuant to several conditions with which the Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non-conveniens for the purpose of permitting proceedings in the PRC. On 20 February 2008, the plaintiffs filed a motion with the Superior Court of the State of California to lift the stay, but the motion was rejected by the court on 6 May 2008. The plaintiffs filed a second motion to to lift the stay on 10 July 2008. On 27 August 2008, the Superior Court of the State of California rejected the motion of the plaintiffs again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an opinion on 26 February 2009, dismissing the appeal of the plaintiffs and affirming the original order. On 16 March 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and no official summons from the court has been received by the Company. The management of the Group believe that a negative outcome of the case will not have an adverse effect on the financial condition and results of operations of the Company. The Group intends to provide updates to the shareholders regarding the progress of the litigation. As at 31 December 2008, the Group was not involved in any other litigation, arbitration or claim of material importance.

47. POST BALANCE SHEET EVENTS

On 15 January 2009, CEA Holding (as the principal), Eastern Air Group Finance Company Limited (the ‘‘Finance Company’’) (as the trustee) and the Company (as the borrower) entered into an entrusted loan agreement, pursuant to which, the Company will obtain a short-term loan of RMB5.55 billion from CEA Holding through the Finance Company. Details are set out in the Company’s announcement dated 15 January 2009.

On 19 January 2009, the Company obtained a two-year credit facility of RMB10 billion from Shanghai Pudong Development Bank.

On 13 February 2009, the Company obtained a three-year credit facility of RMB15 billion from Agricultural Bank of China.

On 26 February 2009, the Company convened an extraordinary general meeting of A and H Share Shareholders in which the special resolution in relation to the approval of the non-public issuance of 1,437,375,000 new A Shares at subscription price of approximately RMB5,563 million to China Eastern Air Holding Company and the issuance of 1,437,375,000 new H Share at subscription price of approximately RMB1,437 million to CES Global Holdings (Hong Kong) Limited was passed. Details are set out in the Company’s announcement dated 10 December 2008 and its Notice of Extraordinary General Meeting and Notice of H Shareholders Class Meeting dated 8 January 2009.

On 16 March 2009, the Company obtained a three-year credit facility of RMB11 billion from Construction Bank of China.

APPENDIX II INFORMATION RELATING TO THE ACQUISITION OF SHANGHAI AIRLINES

INTRODUCTION

The Company completed the acquisition of Shanghai Airlines in January 2010. For details of the acquisition of Shanghai Airlines, please refer to the announcement of the Company dated 10 July 2009 and the circular of the Company dated 25 August 2009.

A. FINANCIAL INFORMATION OF SHANGHAI AIRLINES

The following financial information on Shanghai Airlines for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009 is extracted from the accountant's report on the financial information of Shanghai Airlines included in the circular to the shareholders of the Company dated 25 August 2009, which is not subject to any qualified opinion.

I. FINANCIAL INFORMATION

(a) Consolidated Statements of Comprehensive Income

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenues	5	9,842,049	12,044,857	13,154,092	6,560,579	5,328,020
Other income	6	3,968	45,377	81,637	42,407	314,875
Other gains/(losses)	6	20,223	(120,780)	14,877	123	(1,294)
Operating expenses						
Aircraft fuel		(2,770,045)	(3,703,668)	(4,957,548)	(2,205,349)	(1,400,255)
(Loss)/gain on fair value movements of fuel option contracts	8	—	—	(181,119)	—	51,693
Take-off and landing charges		(855,101)	(1,045,877)	(1,127,735)	(527,224)	(587,617)
Depreciation and amortization		(654,342)	(746,914)	(726,271)	(357,496)	(414,516)
Wages, salaries and benefits	9	(901,986)	(1,192,078)	(1,412,436)	(654,572)	(778,364)
Aircraft maintenance		(493,061)	(726,249)	(963,405)	(509,242)	(385,503)
Food and beverages		(119,409)	(118,207)	(132,993)	(66,115)	(73,264)
Aircraft operating lease rentals		(798,194)	(1,103,385)	(1,194,585)	(581,744)	(590,425)

Transportation, accommodation and meals	(1,033,771)	(1,222,629)	(1,244,097)	(690,046)	(457,577)
Cost of inventories	(832,324)	(963,734)	(681,483)	(337,131)	(258,001)
Other operating lease rentals	(67,889)	(83,867)	(171,013)	(77,536)	(71,220)
Selling and marketing expenses	(437,328)	(511,972)	(561,096)	(266,769)	(288,645)
Civil aviation infrastructure levies	(183,320)	(220,252)	(235,739)	(114,881)	(130,468)
Office, administrative and other expenses	(576,759)	(804,783)	(861,009)	(373,634)	(340,341)
Total operating expenses	(9,723,529)	(12,443,615)	(14,450,529)	(6,761,739)	(5,724,503)

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	Note	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (Unaudited)	2009 RMB'000
Operating profit/(loss)	10	142,711	(474,161)	(1,199,923)	(158,630)	(82,902)
Finance income	11	143,102	283,481	296,975	298,064	11,851
Finance costs	12	(273,895)	(374,964)	(396,834)	(204,578)	(181,783)
Share of results of associates	21	5,831	6,265	8,087	5,007	4,447
Share of results of jointly controlled entities	22	(1,629)	3,799	1,245	440	2,943
Profit/(loss) before income tax		16,120	(555,580)	(1,290,450)	(59,697)	(245,444)
Income tax	13	(22,873)	(18,148)	(15,403)	(8,787)	(20,811)
Loss for the year/period		(6,753)	(573,728)	(1,305,853)	(68,484)	(266,255)
Other comprehensive income/(expense) for the year/period		5,079	3,169	(4,575)	(4,976)	2,449
Fair value movements of available-for-sale financial assets, net of tax		3,253	1,440	(4,566)	(4,486)	2,626
Other income/(expense) recognised directly in equity		1,826	1,729	(9)	(490)	(177)
Total comprehensive loss for the year/period		(1,674)	(570,559)	(1,310,428)	(73,460)	(263,806)
Profit/(loss) attributable to:	15					
— Equity holders of the Target Company		8,430	(531,971)	(1,199,420)	33,571	(270,547)
— Minority interests		(15,183)	(41,757)	(106,433)	(102,055)	4,292
		(6,753)	(573,728)	(1,305,853)	(68,484)	(266,255)

Total comprehensive income/(loss) attributable to:						
— Equity holders of the Target Company		13,509	(528,802)	(1,203,995)	28,595	(268,098)
— Minority interests		(15,183)	(41,757)	(106,433)	(102,055)	4,292
		(1,674)	(570,559)	(1,310,428)	(73,460)	(263,806)
Earnings/(loss) per share attributable to the equity holders of the Target Company during the year/period						
— Basic and diluted (RMB)	16	0.01	(0.49)	(1.11)	0.03	(0.25)

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(b) Consolidated Balance Sheets

	Note	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	30 June 2009 RMB'000
Non-current assets					
Intangible assets		20,619	17,293	15,291	21,874
Property, plant and equipment	17	7,698,080	7,711,010	8,578,881	8,696,469
Lease prepayments	18	148,554	145,183	118,682	117,244
Advanced payments on acquisition of aircraft	19	949,006	1,879,092	2,535,437	2,966,923
Investments in associates	21	51,792	54,257	57,929	55,085
Investments in jointly controlled entities	22	14,165	17,124	18,369	19,587
Available-for-sale financial assets	23	80,127	144,749	178,519	181,945
Other long-term assets	24	444,706	505,202	514,008	542,208
Deferred tax assets	35	4,791	6,425	7,728	7,470
		9,411,840	10,480,335	12,024,844	12,608,805
Current assets					
Flight equipment spare parts		275,371	299,522	383,717	392,576
Trade receivables	25	587,863	804,645	524,975	489,262
Amounts due from related companies	41(b)(i)	225	1,756	5,740	2,935
Prepayments, deposits and other receivables	26	432,587	604,929	500,784	749,070
Cash and cash equivalents	27	621,960	944,174	1,055,936	1,951,542
		1,918,006	2,655,026	2,471,152	3,585,385
Current liabilities					
Sales in advance of carriage		157,848	192,232	238,544	194,547
Trade payables and notes payable	28	897,891	1,159,915	1,378,917	1,340,061
Amounts due to related companies	41(b)(i)	—	2,445	4,513	12,339
Other payables and accrued expenses	29	1,219,793	1,835,579	1,859,587	1,744,648
Short term debentures	30	800,000	800,000	—	—
Current portion of obligations under finance leases	31	—	32,208	69,430	71,861
Current portion of borrowings	32	2,653,910	3,882,581	6,084,068	7,203,120

Income tax payable		13,765	7,955	4,020	20,250
Current portion of provision for return condition checks for aircraft under operating leases	33	35,510	—	—	—
Derivative financial instrument	8	—	—	172,458	58,037
		5,778,717	7,912,915	9,811,537	10,644,863
Net current liabilities		(3,860,711)	(5,257,889)	(7,340,385)	(7,059,478)
Total assets less current liabilities		5,551,129	5,222,446	4,684,459	5,549,327

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		As at 31 December			30 June
		2006	2007	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities					
Obligations under finance leases	31	—	466,748	1,085,354	1,048,516
Borrowings	32	3,337,295	2,916,205	2,781,675	2,854,788
Provision for return condition checks for aircraft under operating leases	33	301,727	396,986	523,791	599,063
Other long-term liabilities	34	88,598	141,446	199,901	233,601
Deferred tax liabilities	35	217	375	142	295
Post-retirement benefit obligations	36	396,753	411,963	401,336	413,281
		4,124,590	4,333,723	4,992,199	5,149,544
Net assets/(Liabilities)		1,426,539	888,723	(307,740)	399,783
Equity					
Capital and reserves attributable to the equity holders of the Target Company					
Share capital	37	1,081,500	1,081,500	1,081,500	1,303,722
Reserves	38	289,825	(238,977)	(1,442,972)	(952,852)
		1,371,325	842,523	(361,472)	350,870
Minority interests		55,214	46,200	53,732	48,913
Total equity		1,426,539	888,723	(307,740)	399,783

(c) Company Balance Sheets

	Note	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	As at 30 June 2009 RMB'000
Non-current assets					
Intangible assets		19,277	15,607	12,196	18,623
Property, plant and equipment	17	7,384,894	7,317,889	8,120,885	8,242,516
Lease prepayments	18	148,379	145,049	118,590	117,172
Advanced payments on acquisition of aircraft	19	949,006	1,879,092	2,535,437	2,966,923
Investments in subsidiaries	20	281,022	327,436	470,436	470,436
Investments in associates	21	40,000	40,000	40,000	40,000
Investment in a jointly controlled entity	22	15,000	15,000	15,000	15,000
Available-for-sale financial assets	23	78,028	142,374	177,521	180,315
Other long-term assets	24	423,944	457,431	448,909	434,155
Deferred tax assets	35	4,422	5,945	6,665	6,024
		9,343,972	10,345,823	11,945,639	12,491,164
Current assets					
Flight equipment spare parts		259,887	278,910	345,990	347,670
Trade receivables	25	261,209	326,068	197,331	201,407
Amounts due from related companies	41(b)(i)	60,521	63,470	34,622	52,366
Amounts due from subsidiaries	41(b)(ii)	50,000	70,000	50,000	75,000
Prepayments, deposits and other receivables	26	179,008	159,379	263,354	517,108
Cash and cash equivalents	27	305,501	389,036	434,188	1,482,058
		1,116,126	1,286,863	1,325,485	2,675,609
Current liabilities					
Sales in advance of carriage		160,551	205,485	242,078	185,639
Trade payables and notes payable	28	704,528	812,253	939,130	930,326
Amounts due to related companies	41(b)(i)	—	2,445	4,513	12,231
Other payables and accrued expenses	29	772,362	1,078,022	1,310,837	1,180,308
Short term debentures	30	800,000	800,000	—	—

Current portion of obligations under finance leases	31	—	32,208	69,430	71,861
Current portion of borrowings	32	2,520,060	3,515,081	5,730,568	6,826,620
Income tax payable		6,865	—	—	—
Current portion of provision for return condition checks for aircraft under operating leases	33	35,510	—	—	—
Derivative financial instrument	8	—	—	172,458	58,037
		4,999,876	6,445,494	8,469,014	9,265,022
Net current liabilities		(3,883,750)	(5,158,631)	(7,143,529)	(6,589,413)
Total assets less current liabilities		5,460,222	5,187,192	4,802,110	5,901,751

		As at 31 December			As at 30 June
	Note	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Non-current liabilities					
Obligations under finance leases	31	—	466,748	1,085,354	1,048,516
Borrowings	32	3,337,295	2,888,205	2,753,675	2,824,788
Provision for return condition checks for aircraft under operating leases	33	207,984	272,110	360,010	410,986
Other long-term liabilities	34	88,598	141,446	196,401	230,101
Post-retirement benefit obligations	36	374,648	388,204	367,440	377,571
		4,008,525	4,156,713	4,762,880	4,891,962
Net assets		1,451,697	1,030,479	39,230	1,009,789
Equity					
Share capital	37	1,081,500	1,081,500	1,081,500	1,303,722
Reserves	38	370,197	(51,021)	(1,042,270)	(293,933)
Total equity		1,451,697	1,030,479	39,230	1,009,789

(d) Consolidated Cash Flow Statements

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities						
Cash generated from operations	39(a)	1,518,699	852,554	404,725	(260,725)	54,031
Income tax paid		(27,868)	(26,177)	(19,920)	(17,119)	(4,970)
Net cash inflow/(outflow) from operating activities		1,490,831	826,377	384,805	(277,844)	49,061
Cash flows from investing activities						
Additions of property, plant and equipment and intangible assets		(1,130,664)	(618,005)	(488,506)	(149,659)	(359,696)
Proceeds from disposal of property, plant and equipment		48,940	496,587	2,013	276	1,584
Acquisition of land use rights		—	(27)	—	—	—
Advanced payments on acquisition of aircraft		(920,477)	(1,210,250)	(1,055,368)	(976,965)	(557,824)
Repayments of advances on aircraft and flight equipment		—	204,760	222,379	76,287	—
Interest received		7,214	11,041	16,270	6,258	8,058
Dividend received		3,639	4,815	5,415	5,415	956
Capital injections in a jointly controlled entity		(500)	—	—	—	—
Capital injections in associates		(1,078)	(175)	(1,000)	—	—
Proceeds from disposal of available-for-sale		—	2,649	6,847	—	—

financial assets					
Purchase of available-for-sale financial assets	—	(63,034)	—	—	—
Net cash outflow from investing activities	(1,992,926)	(1,171,639)	(1,291,950)	(1,038,388)	(906,922)

	Note	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (Unaudited)	2009 RMB'000
Cash flows from financing activities						
Proceeds from draw down of short-term bank loans		2,968,370	4,716,949	5,983,335	3,338,929	3,747,456
Repayments of short-term bank loans		(2,949,769)	(3,314,778)	(4,298,679)	(1,962,640)	(3,110,341)
Proceeds from draw down of long-term bank loans		1,206,166	417,811	1,243,618	693,986	1,006,813
Repayments of long-term bank loans		(1,151,175)	(726,981)	(589,221)	(269,019)	(450,220)
Principal repayments of finance lease obligations		—	(2,310)	(36,997)	(30,911)	(33,959)
Receipt of restricted bank deposit		—	—	—	—	46,921
Payments of restricted bank deposit		—	—	(46,921)	(46,921)	(171,835)
Interest paid		(302,746)	(445,715)	(546,070)	(254,893)	(260,416)
Proceeds from issuance of short-term debentures		774,960	800,000	—	—	—
Repayments of short-term debentures		—	(800,000)	(800,000)	—	—
New share issue	37	—	—	—	—	980,440
Contributions from minority shareholders of subsidiaries		58,164	38,717	119,400	117,000	—
Dividends paid		(37,682)	(5,974)	(5,435)	—	(1,040)

Explanation of Responses:

Net cash inflow from financing activities	566,288	677,719	1,023,030	1,585,531	1,753,819
Net increase in cash and cash equivalents	64,193	332,457	115,885	269,299	895,958
Cash and cash equivalents at beginning of the year/period	558,714	621,960	944,174	944,174	1,055,936
Exchange adjustments	(947)	(10,243)	(4,123)	(1,960)	(352)
Cash and cash equivalents at end of the year/period	621,960	944,174	1,055,936	1,211,513	1,951,542

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(e) Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Target Company					
	Share capital RMB'000	Other reserves RMB'000	Retained profits/ (accumulated losses) RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2006	1,081,500	624,064	(315,301)	1,390,263	17,468	1,407,731
Total comprehensive income/ (loss) for the year ended 31 December 2006	—	5,079	8,430	13,509	(15,183)	(1,674)
Capital injection	—	—	—	—	58,164	58,164
Dividend paid	—	—	(32,447)	(32,447)	(5,235)	(37,682)
Appropriation to statutory and discretionary reserves	—	5,304	(5,304)	—	—	—
Balance at 31 December 2006	1,081,500	634,447	(344,622)	1,371,325	55,214	1,426,539
Balance at 1 January 2007	1,081,500	634,447	(344,622)	1,371,325	55,214	1,426,539
Total comprehensive income/ (loss) for the year ended 31 December 2007	—	3,169	(531,971)	(528,802)	(41,757)	(570,559)
Capital injection	—	—	—	—	38,717	38,717
Dividend paid to minority interests in subsidiaries	—	—	—	—	(5,974)	(5,974)
Balance at 31 December 2007	1,081,500	637,616	(876,593)	842,523	46,200	888,723
Balance at 1 January 2008	1,081,500	637,616	(876,593)	842,523	46,200	888,723

Total comprehensive loss for the year ended 31 December 2008	—	(4,575)	(1,199,420)	(1,203,995)	(106,433)	(1,310,428)
Capital injection	—	—	—	—	119,400	119,400
Dividend paid	—	—	—	—	(5,435)	(5,435)
Balance at 31 December 2008	1,081,500	633,041	(2,076,013)	(361,472)	53,732	(307,740)
Balance at 1 January 2009	1,081,500	633,041	(2,076,013)	(361,472)	53,732	(307,740)
Total comprehensive income/(loss) for the six months ended 30 June 2009	—	2,449	(270,547)	(268,098)	4,292	(263,806)
New share issue (Note 37)	222,222	758,218	—	980,440	—	980,440
Dividend paid to minority interests in subsidiaries	—	—	—	—	(9,111)	(9,111)
Balance at 30 June 2009	1,303,722	1,393,708	(2,346,560)	350,870	48,913	399,783
Unaudited:						
For the six months ended 30 June 2008						
Balance at 1 January 2008	1,081,500	637,616	(876,593)	842,523	46,200	888,723
Total comprehensive (loss)/income for the six months ended 30 June 2008	—	(4,976)	33,571	28,595	(102,055)	(73,460)
Capital injection	—	—	—	—	117,000	117,000
Balance at 30 June 2008	1,081,500	632,640	(843,022)	871,118	61,145	932,263

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II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company, a joint stock company limited by shares, was established in the PRC on 25 October 2000. The Target Company listed its A shares on The Shanghai Stock Exchange on 11 October 2002. The registered address of the Target Company is 100 Airport Street, Pudong International Airport, Shanghai, the PRC.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented, unless otherwise stated.

(a) Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards (‘‘IFRS’’). It has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

In preparing the Financial Information, the Company’s directors have given careful consideration to the going concern status of the Target Group in the context of the Target Group’s current working capital requirements.

The Target Group’s accumulated losses were approximately RMB2,347 million as at 30 June 2009 and its current liabilities exceeded its current assets by approximately RMB7,059 million. Against this background, the Target Company’s management has taken active steps to seek additional sources of finance to improve the Target Group’s liquidity position. At 30 June 2009, the Target Group had total un-used contracted credit facilities of approximately RMB14.9 billion from banks.

Based on the Target Group’s history of obtaining finance and generating cash from operation, the Company’s directors believes that the Target Group will be able to generate/obtain sufficient operating funds/financing to enable it to operate and meet its liabilities as and when they fall due. Accordingly, the Company’s directors consider it is appropriate that the Financial Information should be prepared on a going concern basis and do not include any adjustments that would be required should the Target Company and the Target Group fail to continue as a going concern.

The following standards, interpretations and amendments to existing standards which are relevant to the Target Group’s operations but are not yet effective for the Relevant Periods and have not been early adopted by the Target

Group:

- IAS 27 (Revised) ‘‘Consolidated and Separate Financial Statements’’ (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Target Group will apply IAS 27 (Revised) from 1 January 2010.

- IFRS 3 (Revised) ''Business Combinations'' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are ''capable of being conducted'' rather than ''are conducted and managed''. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. All acquisition related cost should be expensed. The Target Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- Amendment to IFRS 8 ''Operating segments'', effective for periods beginning on or after 1 January 2010. Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the CODM. The Target Group will apply IFRS 8 (amendment) from 1 January 2010.

- Amendment to IAS 7 ''Statement of cash flows'', effective for periods beginning on or after 1 January 2010. Only expenditures that result in a recognised asset are eligible for classification as investing activities. The Target Group will apply IAS 7 (amendment) from 1 January 2010.

- Amendment to IAS 17 ''Leases'', effective for periods beginning on or after 1 January 2010. The amendment removes the specific guidance on the classification of long-term leases of land as operating leases. When classifying land leases, the general principles applicable to the classification of leases should be applied. The classification of land leases has to be reassessed on adoption of the amendment on the basis of information existing at inception of the leases. The Target Group will apply IAS 17 (amendment) from 1 January 2010.

- Amendment to IAS 36 ''Impairment of assets'', effective for periods beginning on or after 1 January 2010. This clarifies that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment before any aggregation as defined in IFRS 8. The Target Group will apply IAS 36 (amendment) from 1 January 2010.

- Amendment to IAS 38 ''Intangible assets'', effective for periods beginning on or after 1 July 2009. This clarifies the description of the valuation techniques commonly used to measure intangible assets acquired in a business combination when they are not traded in an active market. In addition, an intangible asset acquired in a business combination might be separable but only together with a related contract, identifiable asset or liability. In such cases, the intangible asset is recognised separately from goodwill but together with the related item. The Target Group will apply IAS 38 (amendment) from 1 January 2010.

- Amendment to IAS 39 ''Financial instruments: recognition and measurement'', effective for periods beginning on or after 1 January 2010. Loan prepayment penalties are treated as closely related embedded derivatives, only if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. In addition, the scope exemption to business combination contracts only applies to forward contracts that are firmly committed to be completed between the acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date. Therefore option contracts are not in this scope exemption. This amendment also clarifies that in a cash flow hedge of a forecast transaction that a reclassification of the gains or losses on the hedged item from equity to profit or loss is made during the period the hedged forecast cash flows affect profit or loss. The Target Group will apply IAS 39 (amendment) from 1 January 2010.

- Amendment to IFRIC 9 ''Reassessment of embedded derivatives'', effective for periods beginning on or after 1 July 2009. This amendment aligns the scope of IFRIC 9 to the scope of IFRS 3 (revised): the interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a common control combination or the formation of a joint venture. The Target Group will apply IFRIC 9 (amendment) from 1 January 2010.

(b) Consolidation

The Financial Information includes the financial statements of the Target Company and all of its subsidiaries made up in the Relevant Periods.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Target Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Target Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Target Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Target Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

In the Target Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(m)). The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

(ii) Associates

Associates are all entities over which the Target Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Target Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Target Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Target Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Target Group and its associates are eliminated to the extent of the Target Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

Dilution gains and losses in associates are recognised in the consolidated statement of comprehensive income.

In the Target Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses (Note 2(m)). The results of associates are accounted for by the Target Company on the basis of dividend received and receivable.

(iii) Jointly controlled entities

A jointly controlled entity is an entity in which the Target Group has joint control over its economic activity established under a contractual arrangement. The Target Group's investments in jointly controlled entities include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Target Group's interests in jointly controlled entities are accounted for using the equity method of accounting based on the audited financial statements or management accounts of the jointly controlled entities. The Target Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements is adjusted against the carrying amount of the investment. When the Target Group's share of losses in a jointly controlled entity equals or exceeds its interest in that entity, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The Target Group recognises the portion of gains or losses on the sale of assets by the Target Group to the joint venture that it is attributable to the other venturers. The Target Group does not recognise its share of profits or losses from the joint venture that result from the Target Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Target Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2(m)). The results of jointly controlled entities are accounted for by the Target Company on the basis of dividends received and receivable.

(c) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

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

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(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(e) Revenue recognition and sales in advance of carriage

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

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

(i) Traffic revenues

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

(ii) Tour operation revenues

Revenues from tour and travel services and other travel related services to recognised when the services are rendered.

(iii) Other revenue

Revenues from other operating businesses, including income derived from the provision of ground services, cargo handling services and freight forwarding are recognised when the services are rendered.

Revenue from the sale of goods in connection with the import and export business is recognised when the significant risks and rewards of ownership have been transferred to the customer and collectability of the related receivables is reasonably assured. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(f) Government grants

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

Government grants relating to costs are deferred and recognised in the profit and loss in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

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

(g) Maintenance and overhaul costs

In respect of aircraft and engines under operating leases, the Target Group has the responsibility to fulfill 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. Costs incurred for periodic overhauls during the lease periods are charged to profit and loss in the statement of comprehensive income as and when incurred.

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

All other repairs and maintenance costs are charged to profit and loss in the statement of comprehensive income as and when incurred.

(h) Interest income

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

(i) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset, including the interest attributable to loans for advance payments used to finance the acquisition of aircraft, are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

(j) Current and deferred income tax

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

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

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

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

(k) Intangible assets

Intangible assets represent acquired computer software licenses which are capitalised on the basis of the costs incurred to acquire and being to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives.

(l) Property, plant and equipment

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

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

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

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

Aircraft, engines and flight equipment	10 to 20 years
Buildings	40 to 45 years
Other property, plant and equipment	5 to 18 years

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

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

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

(m) Impairment of investments in subsidiaries, associates, jointly controlled entities and non-financial assets

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

(n) Lease prepayments

Lease prepayments represent acquisition costs of land use rights less accumulated amortisation. Amortisation is provided over the lease period of the land use rights on a straight-line basis.

(o) Advanced payments on acquisition of aircraft

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

(p) Flight equipment spare parts

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

(q) Trade receivables

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

(r) Cash and cash equivalents

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

(s) Borrowings

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

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Provisions

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

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

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

(u) Leases

Finance leases

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

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

For sale and leaseback transactions resulting in a finance lease, differences between sales proceeds and net book values are deferred and amortised over the minimum 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 and loss in the statement of comprehensive income on a straight-line basis over the period of the lease.

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognised immediately in the profit and loss in the statement of comprehensive income, except to the extent that any profit or loss is compensated by future lease payments at above or below market value.

(v) Employee benefits

Employee benefits mainly include salaries, bonuses, allowances and subsidies, retirement benefit obligations, housing funds and other expenses related to the employees for their services. The Target Group recognizes employee benefits as liabilities during the accounting period when employees rendered services and allocates them to the related expenses based on different beneficiaries.

(i) Retirement benefit obligations

The Target Group primarily pays contributions on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. Except for the post retirement benefits that the Target Group provides to certain eligible employees as described in the following paragraph, the Target Group has no legal or constructive obligations for further contributions if the funds do not hold sufficient assets to pay all employees the benefit relating to their current and past services.

In addition to making contributions to the above defined contribution retirement benefit plans, the Target Group also provides certain post-retirement subsidies to certain employees. These post- retirement benefits constitute defined benefit obligation under IFRS. The liabilities recognised in the balance sheet in respective of these defined benefit obligations are the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefits obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gain and losses arising from experience adjustment and changes in actuarial assumptions in excess of the greater of 10% of the value of planed assets or 10% of the defined benefit obligation are charged or credited to the profit and loss in the statement of comprehensive income statement over the employees' expected average remaining working lives.

Past-service cost are recognised immediately in the profit and loss in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specific period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) Housing funds

The Target Group provides housing funds based on certain percentages of salaries and at no more than the upper limits of the requirements. These benefits are paid to social security organisations and the amounts paid are expensed as incurred. The Target Group has no legal or constructive obligations for further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to their current and past services.

(w) Derivative financial instruments

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

As described in the felling paragraph, derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments and any unrealised gains or losses, being changes in fair value of the derivatives, are recognised in the profit and loss in the statement of comprehensive income immediately.

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

(x) Available-for-sale financial assets

Investments in securities other than subsidiaries, associates and jointly controlled entities, being held for non- trading purposes, are classified as available-for-sale financial assets and are recognised on the trade-date, being the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. At each balance sheet date, the fair value is remeasured, with any resulting gain or loss being recognised directly in equity, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the profit and loss in the statement of comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where fair value of unquoted investments cannot be measured reliably, the related investments are stated at cost less impairment losses.

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

(y) Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Target 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 Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. The Target Group uses derivative financial instruments to manage certain risk exposures.

(i) Foreign currency risk

Since 21 July 2005, the PRC government reformed the Renminbi exchange rate system and established a floating exchange rate system in which the exchange rate would be adjusted and managed based on market supply and demand with reference to a basket of foreign currencies. The fluctuation in the Renminbi exchange rate is affected by the domestic and international economy, the political situation and the currency supply and demand of the currency, and thus the Renminbi exchange rate in the future may therefore be very different from the current exchange rate.

The Target Group operates its business in several countries and territories. The Target 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 Target Group's major liability item (purchases and leases of aircraft) is mainly priced and settled in US dollars. In addition, fluctuations in exchange rates will affect the Target Group's costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges at foreign airports.

The following table details the Target Group's and the Target Company's exposure at the balance sheet date to major currency risk which is primarily attributable to US dollars.

	Target Group			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	25,192	36,510	47,144	78,824
Cash and cash equivalents	34,411	151,483	45,665	54,539
Trade and other payables	(83,328)	(156,042)	(149,111)	(115,532)
Obligations under finance leases	—	(498,956)	(1,154,784)	(1,120,377)
Borrowings	(4,198,596)	(4,303,086)	(3,670,354)	(4,079,153)

Net balance sheet exposure	(4,222,321)	(4,770,091)	(4,881,440)	(5,181,699)

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Target Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	2,261	1,162	21,454	54,493
Cash and cash equivalents	17,789	134,465	37,907	30,690
Trade and other payables	(14,106)	(39,839)	(74,497)	(83,691)
Obligations under finance leases	—	(498,956)	(1,154,784)	(1,120,377)
Borrowings	(4,198,596)	(4,303,086)	(3,670,354)	(4,079,153)
Net balance sheet exposure	(4,192,652)	(4,706,254)	(4,840,274)	(5,198,038)

The following table indicates the approximate change in the Target Group's and the Target Company's profit and loss in response to a 5% appreciation of the RMB against US dollars at the balance sheet date with all other variables held constant.

Target Group

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Increase in profit after tax	211,116	238,505	244,072	259,085

Target Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Increase in profit after tax	209,633	235,313	242,014	259,902

(ii) Interest rate risk

The Target Group's interest-rate risk primarily arises from borrowings and obligations under finance leases. Borrowings issued at variable rates expose the Target Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Target Group to fair value interest-rate risk. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the Target Group's borrowings at variable rates were primarily denominated in US dollars. The interest rates and terms of repayment of borrowings made to the Target Group are disclosed in Notes 32 to the Financial Information. The Target Group's obligations under finance leases were principally at variable rates and denominated in US dollars as disclosed in Notes 31 to the Financial Information.

The Target Group currently does not have any interest hedging/swap contracts. To mitigate the impact of interest rate fluctuations, the Target Company's management closely monitors the Target Group's exposure to interest rate risk.

The following table indicates the approximate change in the Target Group's and the Target Company's profit and loss if interest rate had been 25 basis points higher with all other variables held constant.

	Target Group			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Decrease in profit after tax	(13,358)	(17,272)	(20,642)	(11,449)

	Target Company			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Decrease in profit after tax	(13,076)	(16,591)	(19,522)	(11,455)

(iii) Fuel price risk

The Target Group's results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense for the Target Group. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, aircraft fuel accounted for 28%, 30%, 34% and 24% of the Target Group's operating expenses respectively. The Target Group entered into fuel option contract in 2008 to hedge against fuel price risk although the fuel option contract does not qualify for hedge accounting. Details of the fuel option contract are disclosed in Note 8 to the Financial Information.

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, if the fuel price had been 5% higher/lower with all other variables held constant (excluding the impact of fuel option contracts), the Target Group's fuel cost would have been RMB139 million, RMB185 million, RMB248 million and RMB70 million higher/lower respectively.

(iv) Credit risk

The Target Group's credit risk is primarily attributable to cash and cash equivalents, restricted cash, trade and other receivables and derivative financial instruments as well as credit exposures to sales agents. The Target Group has established different credit policies for customers in each of its core businesses. The average credit period granted to trade debtors was 60 days. The Target Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure adequate impairment losses are made for irrevocable amounts.

The Target Group has policies in place to ensure that sales of blank tickets are only made available to sales agents with an appropriate credit history. A major portion of sales are conducted through sales agents and the majority of these agents are connected to various settlement plans and/or clearing systems which impose requirements on the credit standing.

A significant portion of the Target Group's air tickets are sold by agents participating in the Billing and Settlements Plan (''BSP''), a clearing system between airlines and sales agents organised by the International Air Transportation Association. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the balance due from BSP agents amounted to approximately RMB113 million, RMB150 million, RMB75 million and RMB116 million respectively.

Except for the above, the Target Group has no significant concentration of credit risk, with the exposure spreading over a number of counterparties.

Further quantitative disclosures in respect of the Target Group's exposure to credit risk arising from trade receivables are set out in Note 25.

The Target 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 an international credit rating company. The Target Company's management does not expect any loss to arise from non-performance by these banks.

(v) Liquidity risk

The Target Group's primary cash requirements have been for additions of and upgrades to aircraft, engines and flight equipment and payments on related borrowings. The Target Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings. The Target Group generally finances the acquisition of aircraft through long-term finance leases and bank loans.

The Target Group generally operates with a working capital deficit. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Target Group's net current liabilities amounted to RMB3,861 million, RMB5,258 million, RMB7,340 million and RMB7,059 million respectively. For each of the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, the Target Group recorded a net cash inflow from operating activities of RMB1,519 million, RMB853 million, RMB405 million and RMB54 million respectively, a net cash outflow from investing activities and financing activities of RMB1,426 million, RMB494 million, RMB267 million and net cash inflow of RMB847 million respectively, and an increase in cash and cash equivalents of RMB64 million, RMB332 million, RMB116 million and RMB896 million respectively.

Due to the dynamic nature of the underlying businesses, the Target Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Target Company's management monitors rolling forecasts of the Target Group's liquidity reserves on the basis of expected cash flows.

The directors of the Company believe that the Target Group has obtained sufficient general credit facilities from PRC banks and generated adequate cash from operations for financing future capital commitments and for working capital purposes (see Notes 2(a)).

The table below analyses the financial liabilities of the Target Group and the Target Company that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Target Group			
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2006				
Short term debentures	800,000	—	—	—
Borrowings	2,891,292	730,380	1,769,798	1,694,534
	2,117,684	—	—	—

Trade, notes and other payables				
Total	5,808,976	730,380	1,769,798	1,694,534
At 31 December 2007				
Short term debentures	800,000	—	—	—
Borrowings	4,123,129	783,820	1,562,454	1,221,386
Obligations under finance leases	54,784	54,590	164,089	381,686
Trade, notes and other payables	2,995,494	—	—	—
Total	7,973,407	838,410	1,726,543	1,603,072

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Target Group

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2008				
Borrowings	6,332,098	863,049	1,422,724	871,174
Derivative financial instrument	172,458	—	—	—
Obligations under finance leases	103,891	106,146	329,018	862,364
Trade, notes and other payables	3,238,504	—	—	—
Total	9,846,951	969,195	1,751,742	1,733,538
At 30 June 2009				
Borrowings	7,395,213	838,409	1,374,833	867,350
Derivative financial instrument	58,037	—	—	—
Obligations under finance leases	108,626	110,083	339,860	815,351
Trade, notes and other payables	3,084,709	—	—	—
Total	10,646,585	948,492	1,714,693	1,682,701

Target Company

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2006				
Short term debentures	800,000	—	—	—
Borrowings	2,757,442	730,380	1,769,798	1,694,534
Trade, notes and other payables	1,476,890	—	—	—
Total	5,034,332	730,380	1,769,798	1,694,534
At 31 December 2007				
Short term debentures	800,000	—	—	—
Borrowings	3,737,875	783,820	1,530,218	1,221,386
	54,784	54,590	164,089	381,686

Obligations under finance leases				
Trade, notes and other payables	1,890,275	—	—	—
Total	6,482,934	838,410	1,694,307	1,603,072
At 31 December 2008				
Borrowings	5,965,126	832,518	1,422,724	871,174
Derivative financial instrument	172,458	—	—	—
Obligations under finance leases	103,891	106,146	329,018	862,364
Trade, notes and other payables	2,249,967	—	—	—
Total	8,491,442	938,664	1,751,742	1,733,538
At 30 June 2009				
Borrowings	7,005,883	838,409	1,340,604	867,350
Derivative financial instrument	58,037	—	—	—
Obligations under finance leases	108,626	110,083	339,860	815,351
Trade, notes and other payables	2,110,634	—	—	—
Total	9,283,180	948,492	1,680,464	1,682,701

(b) Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target 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 Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2006, 2007 and 2008 and 30 June 2009 were as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings	5,991,205	6,798,786	8,865,743	10,057,908
Less: Cash and cash equivalents	(621,960)	(944,174)	(1,055,936)	(1,951,542)
Net debt	5,369,245	5,854,612	7,809,807	8,106,366
Total equity	1,426,539	888,723	(307,740)	399,783
Total capital	6,795,784	6,743,335	7,502,067	8,506,149
Gearing ratio	0.79	0.87	1.04	0.95

(c) Fair value estimation of financial assets and liabilities

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Target Group is the current bid price; the quoted market price used for financial liabilities is the current asking price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Target Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of fuel option contracts is determined by reference to mark-to-market values provided by counterparties applying appropriate option valuation models.

The fair values of other long-term receivables are based on cash flows discounted using a rate based on the borrowing rate. The fair value of long term financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Target Group for similar financial instruments (Notes 31 and 32).

The carrying amounts of the Target Group and the Target Company's current financial assets (including trade and other receivables, amounts due from related companies, and cash equivalents) and short term financial liabilities (including trade payables and notes payable, amounts due to related companies, other payables and accrued expenses and short term borrowings) are assumed to approximate their fair values due to their short-term maturities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the Financial Information 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 Target 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) Estimated impairment of property, plant and equipment

The Target Group tests whether property, plant and equipment have been impaired in accordance with the accounting policy stated in Note 2(l) to the Financial Information. An impairment loss is recognized for the amount by which the recoverable amount of property, plant and equipment being lower than its carrying value. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The calculation of value in use is based on cash flow projections approved by management in which various assumptions and estimations (including but not limited to ticket price, fuel price, load factor, aircraft daily utilisation and discount rate etc.) are involved. Different judgments and estimations could significantly affect the results of the calculation.

(b) Revenue recognition

The Target Group recognises passenger, cargo and mail revenues in accordance with the accounting policy stated in Note 2(e) to the Financial Information. Unused tickets are recognised in traffic revenues based on management's estimates. Management annually evaluates the balance in the SIAC and records any adjustments, which can be material, in the period the evaluation is completed.

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

(c) Frequent flyer programme

The Target Company operates a frequent flyer programme called ''Crane Club'' that provides travel awards to programme members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognised when the miles have been redeemed or have expired. The deferment of revenue is estimated based on historical trends of redemptions which are then used to project the expected utilisation of these benefits and the estimated fair value of the redeemable miles. Any remaining unutilised benefits are recognised as deferred revenue. Different judgments and estimates could significantly affect the estimated deferred revenue or impact the results of operations.

(d) Depreciation of components related to overhaul costs

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

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

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

(f) Post retirement benefits

The Target Group operates and maintains defined retirement benefit plans which provide certain retirees with various retirement subsidies. The cost of providing the benefits in the defined retirement benefit plans is actuarially determined and recognised over the eligible employees' service period by utilising various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(v) to the Financial Information. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate etc. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Target Group. Additional information regarding the retirement benefit plans is disclosed in Note 36 to the Financial Information.

(g) Taxation

The Target Group is subject to various taxes in different areas. Significant judgement is required in determining the provision for various tax charges. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred tax assets that need to be recognised, the Target Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Target 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 Target Group's ability to utilise the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense are made.

5. REVENUES

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

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenues					
Traffic revenues					
— Passenger	6,301,485	7,467,893	8,400,729	4,057,528	3,714,386
— Cargo and mail	1,284,774	1,850,631	1,977,810	1,024,984	489,349
	1,124,660	1,329,857	1,359,314	748,849	581,744

Revenue from tour operations					
Revenue from export and import trading	864,655	976,116	726,413	359,026	265,779
Revenue form freight forwarding services	459,304	565,710	713,467	331,693	265,868
Others	54,796	170,911	285,139	214,798	157,070
	10,089,674	12,361,118	13,462,872	6,736,878	5,474,196
Less: Business tax (Note)	(247,625)	(316,261)	(308,780)	(176,299)	(146,176)
	9,842,049	12,044,857	13,154,092	6,560,579	5,328,020

Note: The Target Group's traffic revenues are generally subject to PRC business tax levied at rates of 3% or 5%, pursuant to PRC business tax rules and regulations.

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6. OTHER INCOME AND OTHER GAINS/(LOSSES)

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other income					
— Government subsidies (Note (a))	3,968	45,377	81,637	42,407	314,875
Other gains/(losses)					
— Gains/(losses) on disposal of property, plant and equipment (Note (b))	20,223	(120,780)	14,877	123	(1,294)

Notes:

(a) The government subsidies represent subsidies granted by the local governments to the Target Group. The amount for the period ended 30 June 2009 mainly represents the refunds of civil aviation infrastructure levies paid and payable by the Target Group for the period from 1 July 2008 to 30 June 2009 pursuant to the relevant notice issued by Ministry of Finance and China Aviation Administration of China (''CAAC'').

(b) The losses on disposal of property, plant and equipment in 2007 represent the loss arising from the sales of certain passenger freighters which were leased back by the Target Group under operating leases.

7. SEGMENT INFORMATION

The Target Company's management reviews the Target Group's internal reporting in order to assess performance and allocate resources. The Target Company's management has determined the operating segments based on these reports.

Management considers the business from both of service/product and geographic perspectives. From a service/product perspective, management assesses the performance of the following segments: (1) passenger (including cargo carried by passenger flights); (2) cargo; (3) tour operation; (4) import and export trading; and (5) freight forwarding. Performances of the other businesses carried out by the less material subsidiaries of the Target Group are assessed together by management as ''all other segments''. In addition, management further evaluates the revenues by analyzing on a geographic basis (domestic, Hong Kong, United States, Japan and other countries).

The Target Company's management assesses the performance of the operating segments based on operating profit. Other information provided to the Target Company's management is measured in a manner consistent with that in the Financial Information.

Sales between segments are carried out at arm's length. The revenues from external parties reported to the Target Company's management are measured in a manner consistent with that in the consolidated statement of comprehensive income.

The segment results for the year ended 31 December 2006 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	7,028,316	579,029	—	—	—	—	7,607,345
Other revenues and operating income	52,489	13,613	1,119,234	866,721	558,898	217,703	2,828,658
Total segment revenues	7,080,805	592,642	1,119,234	866,721	558,898	217,703	10,436,003
Inter-segment revenues	(252,744)	(40,629)	—	(2,304)	(105,149)	(193,128)	(593,954)
Revenues	6,828,061	552,013	1,119,234	864,417	453,749	24,575	9,842,049
Operating profit/(loss)	106,680	(35,561)	18,822	17,506	29,231	6,033	142,711
Finance income							143,102
Finance costs							(273,895)
Share of results of associates							5,831
Share of results of jointly controlled entities							(1,629)
Profit before income tax							16,120
Income tax							(22,873)
Loss for the year							(6,753)

Other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2006 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	623,095	4,368	4,999	272	5,795	5,708	644,237
Amortisation	8,409	8	206	—	224	1,258	10,105

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The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Segment assets	10,070,563	358,912	301,144	114,997	129,057	289,216	11,263,889
Investments in associates	—	—	—	—	—	51,792	51,792
Investments in jointly controlled entities	—	—	—	—	—	14,165	14,165
Total assets	10,070,563	358,912	301,144	114,997	129,057	355,173	11,329,846
Segment liabilities	(9,035,493)	(324,883)	(216,847)	(84,362)	(76,471)	(165,251)	(9,903,307)
Capital expenditure (Notes 17, 18 and 19)	1,937,196	30,581	4,757	253	8,566	132,135	2,113,488

The segment results for the year ended 31 December 2007 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	8,035,570	1,294,704	—	—	—	—	9,330,274
Other revenues and operating income	101,644	99,934	1,323,345	1,015,310	652,092	296,017	3,488,342
Total segment revenues	8,137,214	1,394,638	1,323,345	1,015,310	652,092	296,017	12,818,616
Inter-segment revenues	(305,715)	(130,917)	—	(39,474)	(93,764)	(203,889)	(773,759)

Revenues	7,831,499	1,263,721	1,323,345	975,836	558,328	92,128	12,044,857
Operating (loss)/ profit	(397,810)	(180,741)	18,880	31,015	28,943	25,552	(474,161)
Finance income							283,481
Finance costs							(374,964)
Share of results of associates							6,265
Share of results of jointly controlled entities							3,799
Loss before income tax							(555,580)
Income tax							(18,148)
Loss for the year							(573,728)

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Other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2007 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	706,137	7,219	4,941	292	6,359	10,861	735,809
Amortisation	10,400	63	363	—	138	141	11,105

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Segment assets	11,324,382	699,962	393,529	149,999	159,853	336,255	13,063,980
Investments in associates	—	—	—	—	—	54,257	54,257
Investments in jointly controlled entities	—	—	—	—	—	17,124	17,124
Total assets	11,324,382	699,962	393,529	149,999	159,853	407,636	13,135,361
Segment liabilities	(10,750,137)	(773,223)	(297,766)	(115,355)	(79,602)	(230,555)	(12,246,638)
Capital expenditure (Notes 17, 18 and 19)	2,186,685	22,104	16,617	28	4,608	70,558	2,300,600

The segment results for the year ended 31 December 2008 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	8,941,464	1,518,584	—	—	—	—	10,460,048
Other revenues and operating income	321,133	155,579	1,352,174	729,679	805,095	274,741	3,638,401
Total segment revenues	9,262,597	1,674,163	1,352,174	729,679	805,095	274,741	14,098,449
Inter-segment revenues	(569,577)	(108,766)	—	(3,513)	(100,360)	(162,141)	(944,357)
Revenues	8,693,020	1,565,397	1,352,174	726,166	704,735	112,600	13,154,092
Operating (loss)/ profit	(1,022,079)	(263,329)	4,675	31,508	32,730	16,572	(1,199,923)
Finance income							296,975
Finance costs							(396,834)
Share of results of associates							8,087
Share of results of jointly controlled entities							1,245
Loss before income tax							(1,290,450)
Income tax							(15,403)
Loss for the year							(1,305,853)

Other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2008 are as follows:

Import and

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	674,970	11,228	6,603	272	6,198	13,833	713,104
Amortisation	12,360	206	383	—	64	154	13,167

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The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Segment assets	12,851,466	645,219	338,826	104,310	173,658	306,219	14,419,698
Investments in associates	—	—	—	—	—	57,929	57,929
Investments in jointly controlled entities	—	—	—	—	—	18,369	18,369
Total assets	12,851,466	645,219	338,826	104,310	173,658	382,517	14,495,996
Segment liabilities	(13,442,256)	(749,652)	(244,735)	(68,812)	(78,375)	(219,906)	(14,803,736)
Capital expenditure (Notes 17, 18 and 19)	2,141,626	66,360	6,778	42	5,585	26,858	2,247,249

The segment results for the six months ended 30 June 2008 are as follows:

			(Unaudited)				
	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	4,284,458	776,549	—	—	—	—	5,061,007
Other revenues and operating income	231,654	73,383	745,148	358,853	379,765	139,972	1,928,775
Total segment revenue	4,516,112	849,932	745,148	358,853	379,765	139,972	6,989,782
Inter-segment revenue	(320,586)	—	—	—	(33,069)	(75,548)	(429,203)
Revenues	4,195,526	849,932	745,148	358,853	346,696	64,424	6,560,579

Operating (loss)/ profit	(48,096)	(162,004)	8,902	14,206	19,978	8,384	(158,630)
Finance income							298,064
Finance costs							(204,578)
Share of results of associates							5,007
Share of results of jointly controlled entities							440
Loss before income tax							(59,697)
Income tax							(8,787)
Loss for the period							(68,484)

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Other segment items included in the consolidated statement of comprehensive income for the six months ended 30 June 2008 a

	(Unaudited)						
	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	333,761	4,475	2,926	144	3,128	6,726	351,160
Amortisation	6,017	88	115	—	41	75	6,336

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

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Traffic revenues	3,960,807	323,176	—	—	—	—	4,283,983
Other revenues and operating income	103,483	68,547	578,200	267,033	297,330	130,868	1,445,461
Total segment revenue	4,064,290	391,723	578,200	267,033	297,330	130,868	5,729,444
Inter-segment revenue	(228,817)	(19,993)	(75)	(1,334)	(35,100)	(116,105)	(401,424)
Revenues	3,835,473	371,730	578,125	265,699	262,230	14,763	5,328,020
Operating profit/ (loss)	166,799	(266,633)	10,917	2,523	13,938	(10,446)	(82,902)
Finance income							11,851
Finance costs							(181,783)
Share of results of associates							4,447
Share of results of jointly controlled entities							2,943
Loss before income tax							(245,444)
Income tax							(20,811)
							(266,255)

Loss for the period

Other segment items included in the consolidated statement of comprehensive income for the six months ended 30 June 2009 are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Depreciation	381,902	6,844	1,733	128	2,968	12,872	406,447
Amortisation	6,568	1,400	—	—	21	80	8,069

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The segment assets and liabilities at 30 June 2009 and capital expenditure for the period then ended are as follows:

	Passenger RMB'000	Cargo RMB'000	Tour Operations RMB'000	Import and Export Trading RMB'000	Freight Forwarding RMB'000	All other segments RMB'000	Total RMB'000
Segment assets	14,774,909	432,667	323,430	100,807	180,809	306,896	16,119,518
Investments in associates	—	—	—	—	—	55,085	55,085
Investments in jointly controlled entities	—	—	—	—	—	19,587	19,587
Total assets	14,774,909	432,667	323,430	100,807	180,809	381,568	16,194,190
Segment liabilities	(14,365,550)	(813,708)	(220,364)	(64,252)	(94,350)	(236,183)	(15,794,407)
Capital expenditure (Notes 17, 18 and 19)	949,621	20,805	—	—	1,086	1,539	973,051

Revenues (net of business tax) of the Target Group from passenger and cargo segments are further analyzed by management on geographical basis.

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

Revenue of other business segments are primarily generated from the activities conducted in the PRC.

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (Unaudited)	2009 RMB'000
Domestic (the PRC, excluding Hong Kong)	8,132,402	9,439,307	10,068,467	4,998,359	4,421,752
Hong Kong	517,045	726,608	717,708	360,142	281,019
United States	237,770	497,266	753,026	383,434	162,464

Japan	181,636	255,285	444,383	223,589	177,734
Other countries	773,196	1,126,391	1,170,508	595,055	285,051
Total	9,842,049	12,044,857	13,154,092	6,560,579	5,328,020

The major revenue-earning assets of the Target Group are its aircraft and related equipment, all of which are registered in the PRC. Since the Target Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities on geographical basis. Other than the aircraft as described above, all assets of the Target Group are located in the PRC.

8. (LOSS)/GAIN ON FAIR VALUE MOVEMENTS OF FUEL OPTION CONTRACTS

In the year ended 31 December 2008, the Target Group entered into fuel option contracts to reduce the risk of changes in market oil/petroleum prices against aircraft fuel costs. The fuel option contracts used by the Target Group was structured to include a combination of both put and call options which allowed the Target Group to lock in fuel prices for specified volumes within a price range. In the contracts, the call option price at which the Target Group was effectively entitled to buy fuel would be higher than that at which the counterparty was effectively entitled to sell.

No fuel hedging contract was entered into by the Target Group for the six months ended 30 June 2009, all the opened fuel hedging contracts as at 30 June 2009 are contracts entered into by the Target Group in 2008. None of the fuel hedging contracts entered into by the Target Group qualified for hedge accounting, the realised and unrealised mark to market gains/(losses) of the fuel hedging contracts during a period are recognised in the profit and loss in the consolidated statement of comprehensive income.

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

9. WAGES, SALARIES AND BENEFITS

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries, bonus and allowances	627,925	829,390	996,890	464,009	560,157
Employee welfare and benefits	84,989	127,415	128,533	60,485	62,853
Post-retirement benefits (note 36)	32,716	29,677	27,398	9,584	16,010
Pension funds	88,645	117,246	138,880	60,500	72,215
Medical insurance	32,171	44,884	56,741	23,455	29,165
Staff housing fund	35,540	43,466	63,994	36,539	37,964
	901,986	1,192,078	1,412,436	654,572	778,364

(a) Emoluments of directors and supervisors

The aggregate amounts of emoluments payable to the Target Company's directors and supervisors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and allowance	1,379	1,461	1,449	577	604
Bonus	—	—	—	—	—
Total	1,379	1,461	1,449	577	604

* Certain directors of the Target Company received emoluments from the Target Company's shareholders, part of which were in respect of their services to the Target Company and its subsidiaries. No apportionment has been made as it is impracticable to apportion this amount between their services to the Target Group and their services to the Target Company's shareholders.

During the Relevant Periods, no directors and supervisors of the Target Company waived their emoluments.

(b) Five highest paid individuals

Two directors, whose emoluments are reflected in the above analysis were among the five highest paid individuals in the Target Group for the Relevant Periods. The emoluments payable to the remaining three highest paid individuals are as follows:

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries, bonus and allowances	1,243	1,372	1,441	787	924

The emoluments o the five highest paid individual fell within the following band:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008 (Unaudited)	2009
Below HK$1,000,000	5	5	5	5	5

During the Relevant Period, no emoluments were paid by the Target Group to its' directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Target Group, or as a compensation for loss of office.

10. OPERATING PROFIT/(LOSS)

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

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Crediting:					
Gain on disposals of property, plant and equipment	20,223	—	14,877	123	—
Charging:					
Amortisation of intangible assets	5,367	7,707	10,105	4,918	6,631

Depreciation of property, plant and equipment					
— leased	—	17,539	64,636	29,875	52,765
— owned	644,237	718,270	648,468	321,285	353,682
Amortisation of lease prepayments	4,738	3,398	3,062	1,418	1,438
Consumption of flight equipment spare parts	92,999	124,011	150,911	75,633	82,370
Provision for impairment of trade and other receivables	3,948	13,599	1,449	—	2,407
Auditor's remuneration	750	900	900	450	450
Loss on disposals of property, plant and equipment	—	120,780	—	—	1,294
Cost of inventories	832,324	963,734	681,483	337,131	258,001

11. FINANCE INCOME

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Exchange gains, net (Note)	135,888	272,440	280,705	291,806	3,793
Interest income	7,214	11,041	16,270	6,258	8,058
	143,102	283,481	296,975	298,064	11,851

Note: The exchange gains for the Relevant Periods primarily relate to the translation of the Target Group's foreign currency denominated borrowings and obligations under finance leases at exchange rates prevailing at each year/period end.

12. FINANCE COSTS

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on loans from banks	303,358	399,117	423,892	209,061	209,333
Interest relating to short term debentures (Note 30)	25,040	12,440	34,196	23,137	—
Interest relating to notes payable	9,977	24,921	32,496	16,248	12,485
Interest relating to obligations under finance leases	—	12,487	27,173	16,594	18,886
Less:					
Amounts capitalised to:					
— Advanced payments on acquisition of aircraft (Note)	(62,062)	(71,162)	(114,751)	(57,376)	(56,332)
— Construction in progress	(2,418)	(2,839)	(6,172)	(3,086)	(2,589)
	273,895	374,964	396,834	204,578	181,783

Note: The weighted average interest rate on the capitalised interest expenses for the years ended 31 December 2006, 2007 and 2008, six months ended 30 June 2008 and six months ended 30 June 2009 are 6.12%, 5.34%, 5.02%, 5.27% and 4.90% per annum respectively.

13. INCOME TAX

Income tax charged to profits and loss in the consolidated statement of comprehensive income is as follows:

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Provision for PRC income tax	23,940	20,367	15,985	9,164	21,200
Deferred taxation (Note 35)	(1,067)	(2,219)	(582)	(377)	(389)
	22,873	18,148	15,403	8,787	20,811

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For the years ended 31 December 2006 and 2007, the Target Company and certain of its subsidiaries (the ''Pudong Subsidiaries'') located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong, Shanghai. Other subsidiaries of the Target Group were generally subject to the standard rate of 33%. Under the Corporate Income Tax Law of the People's Republic of China (the ''New CIT Law'') which was approved by the National People's Congress on 16 March 2007 and became effective from 1 January 2008, the Target Company and the Pudong Subsidiaries are entitled to enjoy a transitional period to gradually increase the applicable corporate income tax rate to 25% in coming five years. For the year ended 31 December 2008 and six months ended 30 June 2009, the corporate income tax rate applicable to the Target Company and the Pudong Subsidiaries is 18% and 20% respectively. Other subsidiaries of the Target Group are generally subject to the PRC standard corporate tax rate of 25% under the New CIT Law for the year ended 31 December 2008 and six months ended 30 June 2009.

Tax on the Target Group's consolidated statement of comprehensive income differs from the theoretical amount that would arise using the taxation rate of the Target Company as follows:

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) before income tax	16,120	(555,580)	(1,290,450)	(59,697)	(245,444)
Adjusted by:					
Share of results of associates and jointly controlled entities	(4,202)	(10,064)	(9,332)	(5,447)	(7,390)
	11,918	(565,644)	(1,299,782)	(65,144)	(252,834)
Tax calculated at enacted tax rate (2009: 20%; 2008: 18%; 2007: 15%; 2006: 15%)	1,787	(84,847)	(233,961)	(11,726)	(50,568)
Effect attributable to subsidiaries charged at tax rates of 25% in 2008 and 2009, and 33% in 2006 and 2007	(5,164)	5,551	(1,271)	967	2,909
Expenses not deductible for tax purposes	378	4,537	9,399	2,003	3,613
Effect of tax rate change on deferred tax	—	(2,378)	—	—	—
Recognition of deductible temporary differences unrecognised in prior years	(1,848)	—	—	(13,759)	—
Written off of tax losses/deductible temporary differences recognised in prior years	—	11,998	3,812	—	—
	23,554	68,854	224,479	29,401	59,572

Unrecognised tax losses for the year/ period					
Unrecognised deductible temporary differences for the year/period	5,701	14,874	13,298	2,191	5,285
Income not subject to taxation	(1,535)	(441)	(353)	(290)	—
Tax charge	22,873	18,148	15,403	8,787	20,811

14. DIVIDEND

In 2006, the dividend of the Target Company of RMB32.45 million (RMB0.06 per ordinary share) relating to 2005 was paid.

The board of directors of the Target Company did not recommend any dividend in respect of the Relevant Periods.

APPENDIX II INFORMATION RELATING TO THE ACQUISITION OF SHANGHAI AIRLINES

15. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE TARGET COMPANY

Profit/(loss) attributable to equity holders of the Target Company is dealt with in the financial statements of the Target Company to the extent of profit of RMB65 million, loss of RMB424 million, loss of RMB988 million, profit of RMB82 million and loss of RMB12 million for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2008 and 2009 respectively.

16. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to equity holders of the Target Company of profit of RMB8 million, loss of RMB532 million, loss of RMB1,199 million, profit of RMB34 million, and loss of RMB271 million for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 30 June 2009 respectively and the weighted average number of shares of 1,082 million in issue during the years ended 31 December 2006, 2007 and 2008, six months ended 30 June 2008 and 1,091 million in issue during the six months ended 30 June 2009.

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

17. PROPERTY, PLANT AND EQUIPMENT

Target Group

	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2006	8,980,091	—	644,413	534,562	106,665	10,265,731
Transfers from construction in progress	—	—	50,213	61,349	(111,562)	—
Transfers from advanced payments on acquisition of aircraft (Note 19)	725,565	—	—	—	—	725,565
Other additions	785,433	—	34,649	69,668	234,541	1,124,291
Disposals	(161,595)	—	—	(33,513)	—	(195,108)
At 31 December 2006	10,329,494	—	729,275	632,066	229,644	11,920,479
Accumulated depreciation						
At 1 January 2006	3,372,581	—	100,771	271,201	—	3,744,553
Charge for the year	551,555	—	26,967	65,715	—	644,237

Disposals	(134,971)	—	—	(31,420)	—	(166,391)
At 31 December 2006	3,789,165	—	127,738	305,496	—	4,222,399
Net book amount						
At 31 December 2006	6,540,329	—	601,537	326,570	229,644	7,698,080
At 1 January 2006	5,607,510	—	543,642	263,361	106,665	6,521,178

Target Group

	Aircraft, engines and flight equipment						
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2007	10,329,494	—	729,275	632,066	229,644	11,920,479
Transfers from construction in progress	—	—	147,131	93,246	(240,377)	—
Transfers from advanced payments on acquisition of aircraft (Note 19)	—	351,326	—	—	—	351,326
Other additions	412,323	347,890	6,407	90,824	157,336	1,014,780
Disposals (Note 6(b))	(1,988,530)	—	(12,343)	(16,726)	—	(2,017,599)
At 31 December 2007	8,753,287	699,216	870,470	799,410	146,603	11,268,986
Accumulated depreciation						
At 1 January 2007	3,789,165	—	127,738	305,496	—	4,222,399
Charge for the year	595,702	17,539	45,530	77,038	—	735,809
Disposals (Note 6(b))	(1,381,295)	—	(3,331)	(15,606)	—	(1,400,232)
At 31 December 2007	3,003,572	17,539	169,937	366,928	—	3,557,976
Net book amount						
At 31 December 2007	5,749,715	681,677	700,533	432,482	146,603	7,711,010
At 1 January 2007	6,540,329	—	601,537	326,570	229,644	7,698,080

Target Group

	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2008	8,753,287	699,216	870,470	799,410	146,603	11,268,986
Transfers from construction in progress	—	—	30,846	62,118	(92,964)	—
Transfers from advanced payments on acquisition of aircraft (Note 19)	—	513,774	—	—	—	513,774
Other additions	369,134	495,026	23,924	29,061	151,882	1,069,027
Disposals	(282,519)	—	—	(19,291)	—	(301,810)
At 31 December 2008	8,839,902	1,708,016	925,240	871,298	205,521	12,549,977
Accumulated depreciation						
At 1 January 2008	3,003,572	17,539	169,937	366,928	—	3,557,976
Charge for the year	527,918	64,636	33,355	87,195	—	713,104
Disposals	(282,519)	—	—	(17,465)	—	(299,984)
At 31 December 2008	3,248,971	82,175	203,292	436,658	—	3,971,096
Net book amount						
At 31 December 2008	5,590,931	1,625,841	721,948	434,640	205,521	8,578,881
At 1 January 2008	5,749,715	681,677	700,533	432,482	146,603	7,711,010

	Target Group					
	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2009	8,839,902	1,708,016	925,240	871,298	205,521	12,549,977
Transfers from construction in progress	—	—	20,605	35,980	(56,585)	—
Transfers from advanced payments on acquisition of aircraft (Note 19)	182,670	—	—	—	—	182,670
Other additions	288,925	(36,345)	6,340	62,293	23,030	344,243
Disposals	(72,654)	—	—	(1,396)	—	(74,050)
At 30 June 2009	9,238,843	1,671,671	952,185	968,175	171,966	13,002,840
Accumulated depreciation						
At 1 January 2009	3,248,971	82,175	203,292	436,658	—	3,971,096
Charge for the period	276,228	54,989	28,166	47,064	—	406,447
Disposals	(70,045)	—	—	(1,127)	—	(71,172)
At 30 June 2009	3,455,154	137,164	231,458	482,595	—	4,306,371
Net book amount						
At 30 June 2009	5,783,689	1,534,507	720,727	485,580	171,966	8,696,469
At 1 January 2009	5,590,931	1,625,841	721,948	434,640	205,521	8,578,881

Target Company

	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2006	8,967,276	—	603,808	418,846	67,402	10,057,332
Transfers from construction in progress	—	—	28,283	30,059	(58,342)	—
Transfers from advanced payments on acquisition of aircraft (Note 19)	725,565	—	—	—	—	725,565
Other additions	783,002	—	4,686	17,147	132,572	937,407
Disposals	(161,595)	—	—	(17,477)	—	(179,072)
At 31 December 2006	10,314,248	—	636,777	448,575	141,632	11,541,232
Accumulated depreciation						
At 1 January 2006	3,370,885	—	92,791	230,886	—	3,694,562
Charge for the year	550,380	—	20,053	42,947	—	613,380
Disposals	(134,971)	—	—	(16,633)	—	(151,604)
At 31 December 2006	3,786,294	—	112,844	257,200	—	4,156,338
Net book amount						
At 31 December 2006	6,527,954	—	523,933	191,375	141,632	7,384,894
At 1 January 2006	5,596,391	—	511,017	187,960	67,402	6,362,770

Target Company

	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2007	10,314,248	—	636,777	448,575	141,632	11,541,232
Transfers from construction in progress	—	—	33,751	82,876	(116,627)	—
Transfers from advanced payments on acquisition of aircraft (Note 19)	—	351,326	—	—	—	351,326
Other additions	399,172	347,890	—	31,802	108,503	887,367
Disposals (Note 6(b))	(1,988,530)	—	(12,343)	(14,783)	—	(2,015,656)
At 31 December 2007	8,724,890	699,216	658,185	548,470	133,508	10,764,269
Accumulated depreciation						
At 1 January 2007	3,786,294	—	112,844	257,200	—	4,156,338
Charge for the year	593,288	17,539	31,756	46,091	—	688,674
Disposals (Note 6(b))	(1,381,295)	—	(3,331)	(14,006)	—	(1,398,632)
At 31 December 2007	2,998,287	17,539	141,269	289,285	—	3,446,380
Net book amount						
At 31 December 2007	5,726,603	681,677	516,916	259,185	133,508	7,317,889
At 1 January 2007	6,527,954	—	523,933	191,375	141,632	7,384,894

	Target Company					
	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2008	8,724,890	699,216	658,185	548,470	133,508	10,764,269
Transfers from construction in progress	—	—	24,863	39,552	(64,415)	—
Transfers from advanced payments on acquisition of aircraft (Note 19)	—	513,774	—	—	—	513,774
Other additions	339,890	495,026	4,874	559	104,727	945,076
Disposals	(282,519)	—	—	(16,356)	—	(298,875)
At 31 December 2008	8,782,261	1,708,016	687,922	572,225	173,820	11,924,244
Accumulated depreciation						
At 1 January 2008	2,998,287	17,539	141,269	289,285	—	3,446,380
Charge for the year	523,460	64,636	18,330	48,362	—	654,788
Disposals	(282,519)	—	—	(15,290)	—	(297,809)
At 31 December 2008	3,239,228	82,175	159,599	322,357	—	3,803,359
Net book amount						
At 31 December 2008	5,543,033	1,625,841	528,323	249,868	173,820	8,120,885
At 1 January 2008	5,726,603	681,677	516,916	259,185	133,508	7,317,889

Target Company

	Aircraft, engines and flight equipment					
	Owned RMB'000	Held under finance leases RMB'000	Buildings RMB'000	Other property, plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2009	8,782,261	1,708,016	687,922	572,225	173,820	11,924,244
Transfers from construction in progress	—	—	20,605	35,980	(56,585)	—
Transfers from advanced payments on acquisition of aircraft (Note 19)	182,670	—	—	—	—	182,670
Other additions	275,131	(36,345)	6,339	52,136	19,555	316,816
Disposals	(69,113)	—	—	—	—	(69,113)
At 30 June 2009	9,170,949	1,671,671	714,866	660,341	136,790	12,354,617
Accumulated depreciation						
At 1 January 2009	3,239,228	82,175	159,599	322,357	—	3,803,359
Charge for the period	272,785	54,989	22,258	27,823	—	377,855
Disposals	(69,113)	—	—	—	—	(69,113)
At 30 June 2009	3,442,900	137,164	181,857	350,180	—	4,112,101
Net book amount						
At 30 June 2009	5,728,049	1,534,507	533,009	310,161	136,790	8,242,516
At 1 January 2009	5,543,033	1,625,841	528,323	249,868	173,820	8,120,885

Note: As at 31 December 2006, 2007 and 2008 and 30 June 2009, certain aircraft and buildings owned by the Target Group and the Target Company with an aggregate net book amount of approximately RMB4,547 million, RMB4,306 million, RMB4,035 million and RMB4,241 million respectively were pledged as collateral under certain loan arrangements (Note 32).

18. LEASE PREPAYMENTS

	Target Group				Target Company			
				As at				As at
	As at 31 December			30 June	As at 31 December			30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost								
At beginning of the year/period	170,876	170,876	170,903	144,010	166,660	166,660	166,687	139,794
Additions	—	27	—	—	—	27	—	—
Disposals	—	—	(26,893)	—	—	—	(26,893)	—
At end of the year/period	170,876	170,903	144,010	144,010	166,660	166,687	139,794	139,794
Accumulated amortisation								
At beginning of the year/period	17,584	22,322	25,720	25,328	14,954	18,281	21,638	21,204
Charge for the year/period	4,738	3,398	3,062	1,438	3,327	3,357	3,020	1,418
Disposals	—	—	(3,454)	—	—	—	(3,454)	—
At end of the year/period	22,322	25,720	25,328	26,766	18,281	21,638	21,204	22,622
Net book amount								
At end of the year/period	148,554	145,183	118,682	117,244	148,379	145,049	118,590	117,172

Lease prepayments represent unamortised lease prepayments for land use rights.

The Target Group's land use rights are located in the PRC and the majority of these land use rights have terms of 50 years from the date of grant. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the majority of these land use rights had remaining terms ranging from 34 to 45 years, 33 to 44 years, 32 to 43 years and 31 to 42 years respectively.

19. ADVANCED PAYMENTS ON ACQUISITION OF AIRCRAFT

	Target Group and Target Company			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	692,032	949,006	1,879,092	2,535,437
Additions	920,477	1,210,250	1,055,368	557,824
Interest capitalised (Note 12)	62,062	71,162	114,751	56,332
Transfers to property, plant and equipment (Note 17)	(725,565)	(351,326)	(513,774)	(182,670)
At end of the year/period	949,006	1,879,092	2,535,437	2,966,923

APPENDIX II INFORMATION RELATING TO THE ACQUISITION OF SHANGHAI AIRLINES

20. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2006, 2007 and 2008 and 30 June 2009, particulars of the principal subsidiaries, all of which are limited liability companies established and operating in the PRC, are as follows:

			Attributable equity interest				
			As at 31 December			As at 30 June	
Company	Date of establishment	Paid-up capital RMB’000	2006	2007	2008	2009	Principal activities
Shanghai Airlines Cargo International Co., Ltd.	3 April 2006	464,050	55%	55%	55%	55%	Provision of international cargo carriage services
China United Airlines Co., Ltd.	21 September 1984	100,000	80%	80%	80%	80%	Provision of domestic and international airline transportation
Shanghai Airlines Travel Hotel Co., Ltd.	6 February 2005	53,000	100%	100%	100%	100%	Provision of hotel management, corporate management and investment consulting services
Shanghai Airlines Tours, International (Group) Co., Ltd.	29 August 1992	50,090	100%	100%	100%	100%	Tour operations, travel and air ticketing agency and transportation
Dahang International Transportation Co., Ltd.	16 December 1993	30,737	55%	55%	55%	55%	Freight forwarding, air freight forwarding and cargo freight forwarding
Shanghai Crane International Transportation Co., Ltd.	5 October 1997	20,000	55%	55%	55%	55%	Cargo transportation, freight forwarding and airport ground services
		16,800	100%	100%	100%	100%	

Shanghai Aviation Import & Export Co., Ltd.	1 December 1992						Direct export and import and provision of agency services for various products and techniques
Shanghai Airlines Holiday Tours Co., Ltd.	8 June 1995	12,220	100%	100%	100%	100%	Tour operations and air ticketing agency

21. INVESTMENTS IN ASSOCIATES

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	44,041	44,216	45,216	45,216	40,000	40,000	40,000	40,000
Share of post acquisition results/reserves	7,751	10,041	12,713	9,869	—	—	—	—
	51,792	54,257	57,929	55,085	40,000	40,000	40,000	40,000

The movement on investments in associates is as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	47,597	51,792	54,257	57,929	40,000	40,000	40,000	40,000
Costs of additional investments	1,078	175	1,000	—	—	—	—	—
Share of results of associates	5,831	6,265	8,087	4,447	—	—	—	—
Dividend received during the year/period	(2,714)	(3,975)	(5,415)	(7,291)	—	—	—	—
At end of the year/period	51,792	54,257	57,929	55,085	40,000	40,000	40,000	40,000

As at 31 December 2006, 2007 and 2008 and 30 June 2009, particulars of the principal associates, all of which are limited liability companies established and operating in the PRC, are as follows:

Company	Date of establishment	Paid-up capital RMB’000	Attributable equity interest As at 31 December 2006	2007	2008	As at 30 June 2009	Principal activities
New Shanghai International Tower Co., Ltd.	17 November 1992	166,575	20%	20%	20%	20%	Property development and property management
Shanghai Sidesun Technology Co., Ltd.	8 March 2001	8,000	30%	30%	30%	30%	Trading of computer and peripheral products, telecommunication equipment, installation of computer hardware, design of computer software and apparel trading, etc.

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The Target Group's aggregated share of the revenues, results, assets and liabilities of its associates are as follows:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenues	30,541	34,717	36,824	22,799	20,704
Profit for the year/period	5,831	6,265	8,087	5,007	4,447

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Assets	100,290	99,257	100,971	101,974
Liabilities	48,498	45,000	43,042	46,889

22. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	15,500	15,500	15,500	15,500	15,000	15,000	15,000	15,000
Share of post acquisition results/reserves	(1,335)	1,624	2,869	4,087	—	—	—	—
	14,165	17,124	18,369	19,587	15,000	15,000	15,000	15,000

The movement on investments in jointly controlled entities is as follows:

Target Group				Target Company			
As at 31 December			As at 30 June	As at 31 December			As at 30 June
2006	2007	2008	2009	2006	2007	2008	2009
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

At beginning of the year/period	16,219	14,165	17,124	18,369	15,000	15,000	15,000	15,000
Addition	500	—	—	—	—	—	—	—
Share of results	(1,629)	3,799	1,245	2,943	—	—	—	—
Dividend received during the year/period	(925)	(840)	—	(1,725)	—	—	—	—
At end of the year/period	14,165	17,124	18,369	19,587	15,000	15,000	15,000	15,000

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Particulars of the principal jointly controlled entities, all of which are limited liability companies established and operating in the PRC are as follows:

Company	Date of establishment	Paid-up capital RMB'000	Attributable equity interest As at 31 December 2006	2007	2008	As at 30 June 2009	Principal activities
Shanghai Hute Aviation Tech. Co. Ltd.	9 April 2003	30,000	50%	50%	50%	50%	Development of aviation equipment, property management, investment and corporate image consulting services
Shanghai Airlines Holidays Ticket Services Co., Ltd.	8 May 2006	1,000	50%	50%	50%	50%	Provision of travel information, consulting and delivery services and travel agency

The Target Group's aggregated share of the revenues, results, assets and liabilities of its jointly controlled entities is as follows:

	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (Unaudited)	2009 RMB'000
Revenues	6,633	8,469	12,031	4,252	6,956
(Loss)/profit for the year/period	(1,629)	3,799	1,245	440	2,943

	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	As at 30 June 2009 RMB'000
Assets	18,384	18,905	23,537	23,066
Liabilities	4,219	1,781	5,168	3,479

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments listed in the PRC, at fair value	5,849	9,285	3,016	6,442	3,750	6,909	2,018	4,812
Unlisted equity investments (Note)	74,434	135,620	175,659	175,659	74,278	135,465	175,503	175,503
Less: provision for impairment	(156)	(156)	(156)	(156)	—	—	—	—
	80,127	144,749	178,519	181,945	78,028	142,374	177,521	180,315

Note: The Company's directors have considered that the range of reasonable estimates on the fair value of these unquoted investments is significant and the probabilities of the various estimates cannot be reasonably assessed, these investments therefore are be stated at cost less provision for impairment losses.

The movement on available-for-sale financial assets is as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	76,369	80,127	144,749	178,519	75,718	78,028	142,374	177,521
Additions	—	63,034	40,038	—	—	61,186	40,038	—
Disposals	—	(595)	(748)	—	—	—	(740)	—
Net fair value gains/(losses) transferred to equity	3,758	2,183	(5,520)	3,426	2,310	3,160	(4,151)	2,794
At end of the year/period	80,127	144,749	178,519	181,945	78,028	142,374	177,521	180,315

24. OTHER LONG-TERM ASSETS

Target Group				Target Company			
As at 31 December			As at 30 June	As at 31 December			As at 30 June
2006	2007	2008	2009	2006	2007	2008	2009
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

Deposits relating to aircraft under operating leases	280,036	310,307	305,799	305,678	267,386	268,823	260,165	260,062
Prepaid flight training fees	121,765	162,526	181,765	180,085	117,715	156,239	162,300	149,893
Rental and renovation deposits	7,705	1,569	44	—	3,643	1,569	44	—
Other long-term assets	35,200	30,800	26,400	56,445	35,200	30,800	26,400	24,200
	444,706	505,202	514,008	542,208	423,944	457,431	448,909	434,155

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25. TRADE RECEIVABLES

The credit terms given to trade customers are determined on an individual basis, with the credit periods generally ranging from half a month to three months.

The aging analysis of trade receivables is as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	545,568	767,191	482,312	469,883	257,186	318,161	197,529	202,035
3 to 6 months	23,196	24,571	18,271	9,142	2,320	8,550	90	64
6 to 12 months	16,631	10,264	24,344	6,446	—	—	368	—
Over 12 months	10,073	22,109	19,368	19,391	4,947	5,187	4,730	—
	595,468	824,135	544,295	504,862	264,453	331,898	202,717	202,099
Less: provision for impairment of receivables	(7,605)	(19,490)	(19,320)	(15,600)	(3,244)	(5,830)	(5,386)	(692)
	587,863	804,645	524,975	489,262	261,209	326,068	197,331	201,407

Trade receivables that were neither past due nor impaired relate to a large number of independent sales agents for whom there is no recent history of default.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, trade receivables of RMB59 million, RMB65 million, RMB83 million and RMB34 million respectively were past due but not impaired. These relate to a number of independent sales agents for whom there is no recent history of default. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Target Group holds no collateral as security against any receivables. The ageing analysis of these trade receivables is as follows:

Target Group				Target Company			
As at 31 December			As at 30 June	As at 31 December			As at 30 June
2006	2007	2008	2009	2006	2007	2008	2009
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

Up to 6 months	42,006	54,506	58,907	27,635	3,863	9,504	1,111	1,712
6 to 12 months	16,631	10,264	24,344	6,446	—	—	368	—
	58,637	64,770	83,251	34,081	3,863	9,504	1,479	1,712

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Target Group's trade receivables of RMB5 million, RMB16 million, RMB17 million and RMB12 million respectively were impaired and fully provided for. The remaining impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The factors considered by management in determining the impairment are described in Note 2(q).

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Movements on the provision for impairment of trade receivables of the Target Group and the Target Company are as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	4,143	7,605	19,490	19,320	2,551	3,244	5,830	5,386
Receivables written off during the year/period as uncollectible	(387)	—	—	(4,919)	(287)	—	—	(4,832)
Provision for impairment of receivables	4,030	11,892	783	1,803	980	2,586	—	138
Unused amounts reversed	(181)	(7)	(953)	(604)	—	—	(444)	—
At end of the year/period	7,605	19,490	19,320	15,600	3,244	5,830	5,386	692

The net impact of creation and release of provisions for impaired receivables have been included in ''Provision for impairment of trade and other receivables'' in the profit and loss in the consolidated statement of comprehensive income (Note 10). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying amount of receivable shown above.

The carrying amounts of the Target Group and the Target Company's trade receivables are denominated in the following currencies:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	561,162	767,990	490,236	458,944	257,439	324,761	188,335	195,420
US Dollars	25,192	36,510	26,237	24,487	2,261	1,162	547	156
Other currencies	1,509	145	8,502	5,831	1,509	145	8,449	5,831

	587,863	804,645	524,975	489,262	261,209	326,068	197,331	201,407

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid aircraft operating lease rentals	63,683	102,191	88,329	82,026	46,534	63,459	72,664	66,141
Deposits with custom office	15,410	24,549	48,925	19,885	13,624	23,542	44,509	13,379
Rental deposits	20,165	23,650	22,607	28,203	1,265	1,294	2,390	4,143
Prepayments for acquisition of equipment and other assets	73,545	115,422	69,870	81,663	23,047	23,183	18,761	18,356
Prepayments for tour operations	78,415	76,362	64,483	50,254	—	—	—	—
Secured deposits relating to short-term borrowings (Note 32)	—	—	46,921	171,835	—	—	46,921	171,835
Advance payments to and payments on behalf of staff	35,513	41,207	41,556	38,690	31,796	34,573	39,760	38,152
Rebate receivable on aircraft acquisition	—	—	20,907	40,337	—	—	20,907	40,337
Custom duties and tax recoverable	34,976	21,424	17,689	21,783	4,610	1,795	3,311	3,561
Prepayments for fuel	550	123,826	8,523	4,477	—	—	—	—
Refundable of civil aviation infrastructure levies	—	—	—	129,655	—	—	—	112,096

Others	110,330	76,298	70,974	80,262	58,132	11,533	14,131	49,108
	432,587	604,929	500,784	749,070	179,008	159,379	263,354	517,108

27. CASH AND CASH EQUIVALENTS

The carrying amounts of the Target Group's and Target Company's cash and cash equivalents are denominated in the following currencies:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	576,461	772,884	961,852	1,826,607	285,255	249,640	369,153	1,389,372
US Dollars	34,411	151,483	45,665	54,539	17,789	134,465	37,907	30,690
HK Dollars	149	1,815	18,370	22,500	—	1,663	18,264	22,387
Japanese Yen	4,578	4,647	17,607	34,459	1,363	1,901	4,308	30,414
Euro	6,361	12,700	8,277	4,460	1,094	786	417	297
Other currencies	—	645	4,165	8,977	—	581	4,139	8,898
	621,960	944,174	1,055,936	1,951,542	305,501	389,036	434,188	1,482,058

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28. TRADE PAYABLES AND NOTES PAYABLE

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

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	549,966	947,451	687,604	817,493	406,251	694,997	462,331	552,200
91 to 180 days	316,530	154,764	626,239	468,439	296,464	115,671	467,811	368,693
181 to 365 days	21,222	38,964	37,751	30,730	1,125	237	1,435	2,351
Over 365 days	10,173	18,736	27,323	23,399	688	1,348	7,553	7,082
	897,891	1,159,915	1,378,917	1,340,061	704,528	812,253	939,130	930,326

29. OTHER PAYABLES AND ACCRUED EXPENSES

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accrued fuel cost	357,901	658,230	631,406	302,759	212,599	341,479	468,573	223,639
Accrued take-off and landing charges	182,357	266,724	366,773	448,210	164,829	232,888	341,757	418,825
Accrued aircraft overhaul expenses	75,375	143,628	202,552	228,900	73,323	142,584	191,732	159,064
Advance payments received from tour customers	116,090	162,708	144,255	130,448	—	—	—	—
Duties and levies payable	117,285	148,418	124,616	203,986	101,297	106,374	71,486	122,010
	41,338	78,386	96,832	154,927	37,802	44,369	67,276	98,825

Other accrued operating expenses								
Deposits received from ticket sales agents and cargo forward agents	116,402	106,705	91,947	77,074	99,153	78,022	69,019	58,392
Accrued salaries, wages and benefits	22,872	53,492	40,996	30,841	6,577	39,750	11,126	12,151
Deposits received from import and export customers	44,904	68,324	32,637	31,841	—	—	—	—
Interest payables	56,994	60,246	31,933	10,052	56,973	60,246	31,649	16,534
Current portion of post-retirement benefit obligations (Note 36)	1,378	1,503	1,727	1,881	1,371	1,496	1,648	1,802
Others	86,897	87,215	93,913	123,729	18,438	30,814	56,571	69,066
	1,219,793	1,835,579	1,859,587	1,744,648	772,362	1,078,022	1,310,837	1,180,308

30. SHORT TERM DEBENTURES

On 10 January 2006, the Target Company issued a short term debenture with a par value of RMB100 per unit at 96.87% of its principal amount of RMB800 million with 1-year term. The debenture was redeemed by the Target Company in January 2007.

On 28 September 2007, the Target Company issued a short term debenture with a face value of RMB800 million at par value of RMB100 per unit with 363-day term. The fixed annual coupon and effective interest rate of this debenture is 5.8%. The debenture was redeemed by the Target Company in September 2008.

31. OBLIGATIONS UNDER FINANCE LEASES

During the Relevant Periods, the Target Group and the Target Company had acquired aircraft under finance lease arrangements. Under the terms of the leases, the Target Group and the Target Company have options to purchase, at or near the end of the lease terms, certain aircraft at fair market value and others at either fair market value or at a percentage of the respective lessors' defined cost of the aircraft. The obligations under finance leases are denominated in US Dollars.

The interest rates of finance lease obligations are floating at Nil for the year ended 31 December 2006, 6 months LIBOR plus 0.45% per annum for the year ended 31 December 2007, 3 months LIBOR plus 1.6% to 6 months LIBOR plus 0.45% per annum for the year ended 31 December 2008 and six months ended 30 June 2009.

The future minimum lease payments (including interest), and the present value of the minimum lease payments under finance leases are as follows:

	Target Group and Target Company					
	As at 31 December 2006			As at 31 December 2007		
	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000	Minimum lease payments RMB'000	Interest RMB'000	Present value of minimum lease payments RMB'000
Within one year	—	—	—	54,784	22,576	32,208
In the second year	—	—	—	54,590	20,930	33,660
In the third to fifth year inclusive	—	—	—	164,089	53,619	110,470
After the fifth year	—	—	—	381,686	59,068	322,618
Total	—	—	—	655,149	156,193	498,956
Less: amount repayable within one year	—	—	—	(54,784)	(22,576)	(32,208)
Long-term portion	—	—	—	600,365	133,617	466,748

	Target Group and Target Company					
	As at 31 December 2008			As at 30 June 2009		
	Minimum lease		Present value of minimum lease	Minimum lease		Present value of minimum lease

	payments RMB’000	Interest RMB’000	payments RMB’000	payments RMB’000	Interest RMB’000	payments RMB’000
Within one year	103,891	34,461	69,430	108,626	36,765	71,861
In the second year	106,146	32,386	73,760	110,083	34,432	75,651
In the third to fifth year inclusive	329,018	83,566	245,452	339,860	88,077	251,783
After the fifth year	862,364	96,222	766,142	815,351	94,269	721,082
Total	1,401,419	246,635	1,154,784	1,373,920	253,543	1,120,377
Less: amount repayable within one year	(103,891)	(34,461)	(69,430)	(108,626)	(36,766)	(71,861)
Long-term portion	1,297,528	212,174	1,085,354	1,265,294	216,777	1,048,516

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As at 31 December 2006, 2007 and 2008 and 30 June 2009, the fair value of obligations under finance leases of the Target Group and the Target Company are Nil, RMB506 million, RMB1,161 million and RMB1,124 million respectively, which are determined using the expected future payments discounted at market interest rates prevailing at the year end.

32. BORROWINGS

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Non-current								
Long-term bank borrowings								
— secured	3,120,188	2,530,206	1,991,397	2,055,715	3,120,188	2,530,206	1,991,397	2,055,715
— unsecured	217,107	385,999	790,278	799,073	217,107	357,999	762,278	769,073
	3,337,295	2,916,205	2,781,675	2,854,788	3,337,295	2,888,205	2,753,675	2,824,788
Current								
Current portion of long-term bank borrowings								
— secured	413,694	397,606	383,429	417,597	413,694	397,606	383,429	417,597
— unsecured	326,712	220,535	800,697	1,248,519	326,712	220,535	800,697	1,220,519
Short-term bank borrowings								
— secured	2,700	—	47,842	170,735	—	—	47,842	170,735
— unsecured	1,910,804	3,264,440	4,852,100	5,366,269	1,779,654	2,896,940	4,498,600	5,017,769
	2,653,910	3,882,581	6,084,068	7,203,120	2,520,060	3,515,081	5,730,568	6,826,620
Total borrowings	5,991,205	6,798,786	8,865,743	10,057,908	5,857,355	6,403,286	8,484,243	9,651,408
The borrowings are repayable as								

follows:								
Within one year	2,653,910	3,882,581	6,084,068	7,203,120	2,520,060	3,515,081	5,730,568	6,826,620
In the second year	529,977	616,146	753,387	763,704	529,977	616,146	725,387	763,704
In the third to fifth year inclusive	1,362,284	1,246,933	1,234,756	1,264,102	1,362,284	1,218,933	1,234,756	1,234,102
After the fifth year	1,445,034	1,053,126	793,532	826,982	1,445,034	1,053,126	793,532	826,982
Total borrowings	5,991,205	6,798,786	8,865,743	10,057,908	5,857,355	6,403,286	8,484,243	9,651,408

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(a) The terms of the long-term bank loans are summarised as follows:

		Target Group				Target Company			
		As at 31 December			As at 30 June	As at 31 December			As at 30 June
Currency	Interest rate and final maturities	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
RMB	Fixed interest rates of 6.08% per annum with final maturities through to 2010	—	28,000	28,000	28,000	—	—	—	—
	Floating interest rates ranging from 0–10% discount of benchmark interest rates as stipulated by PBOC* with final maturities through to 2012	413,754	140,200	315,284	632,255	413,754	140,200	315,284	602,255
USD	Floating interest rates ranging from 6 month LIBOR +0.26% to 6 month LIBOR +3% with final maturities through to 2020	3,663,947	3,366,146	3,622,517	3,860,649	3,663,947	3,366,146	3,622,517	3,860,649
		4,077,701	3,534,346	3,965,801	4,520,904	4,077,701	3,506,346	3,937,801	4,462,904

* The People's Bank of China (''PBOC'')

The fair value of long-term borrowings of the Target Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 are RMB3,928 million, RMB3,401 million, RMB3,838 million and RMB4,471 million respectively and the Target Company as at 31 December 2006, 2007 and 2008 and 30 June 2009 are RMB3,928 million, RMB3,373 million, RMB3,807 million, and RMB4,409 million respectively, which are determined using the expected future payments discounted at prevailing market interest rates available to the Target Group and the Target Company for financial instruments with substantially the same terms and characteristics at the Relevant Periods.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the secured long-term bank borrowings of the Target Group for the purchases of aircraft were secured by the related aircraft and buildings with aggregate net book amounts of RMB4,547 million, RMB4,306 million, RMB4,035 million and RMB4,241 million respectively (Note 17).

(b) The terms of the short-term bank borrowings are summarised as follows:

		Target Group				Target Company			
		As at 31 December			As at 30 June	As at 31 December			As at 30 June
	Interest rate and	2006	2007	2008	2009	2006	2007	2008	2009
Currency	final maturities	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RMB	Fixed interest rates (2006:5.02–5.85%; 2007:5.27–6.56%; 2008:5.02–6.90%; 2009: 4.37–6.72%)	1,085,000	1,710,000	2,598,600	1,250,000	1,045,000	1,560,000	2,598,600	1,250,000
	Floating interest rates ranging from 0–10% discount of benchmark interest rates as stipulated by PBOC	293,850	617,500	2,253,500	4,068,500	200,000	400,000	1,900,000	3,720,000
USD	Fixed interest rates (2009:2.48–2.54%;)	—	—	—	47,768	—	—	—	47,768
	Floating interest rates ranging from 6 month LIBOR +0.4% to 12 month LIBOR +2%	534,654	936,940	47,842	170,736	534,654	936,940	47,842	170,736
		1,913,504	3,264,440	4,899,942	5,537,004	1,779,654	2,896,940	4,546,442	5,188,504

As at 31 December 2008 and 30 June 2009, the secured short-term bank borrowings of the Target Group and the Target Company were secured by bank deposits of RMB47 million and RMB172 million respectively (Note 26).

(c) The carrying amounts of the borrowings are denominated in the following currencies:

Target Group				Target Company			
As at 31 December			As at 30 June	As at 31 December			As at 30 June
2006	2007	2008	2009	2006	2007	2008	2009
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

Currency								
Renminbi	1,792,609	2,495,700	5,195,389	5,978,755	1,658,759	2,100,200	4,813,889	5,572,255
US Dollars	4,198,596	4,303,086	3,670,354	4,079,153	4,198,596	4,303,086	3,670,354	4,079,153
	5,991,205	6,798,786	8,865,743	10,057,908	5,857,355	6,403,286	8,484,243	9,651,408

33. PROVISION FOR RETURN CONDITION CHECKS FOR AIRCRAFT UNDER OPERATING LEASES

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/ period	263,797	337,237	396,986	523,791	181,442	243,494	272,110	360,010
Additional provisions	73,440	86,989	126,805	75,272	62,052	55,856	87,900	50,976
Utilisation	—	(27,240)	—	—	—	(27,240)	—	—
At end of the year/period	337,237	396,986	523,791	599,063	243,494	272,110	360,010	410,986
Less: current portion	(35,510)	—	—	—	(35,510)	—	—	—
Long-term portion	301,727	396,986	523,791	599,063	207,984	272,110	360,010	410,986

Provision for return condition checks for aircraft under operating leases represents the present value of estimated costs of major return checks for aircraft under operating leases as the Target Group has the responsibility to fulfill certain return conditions under the relevant leases.

34. OTHER LONG-TERM LIABILITIES

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Long-term duties and levies payable	—	31,527	87,234	84,565	—	31,527	87,234	84,565
Fair value of unredeemed points awarded under the Target Group's frequent flyer								

program	88,598	109,919	94,677	131,046	88,598	109,919	94,677	131,046
Others	—	—	17,990	17,990	—	—	14,490	14,490
	88,598	141,446	199,901	233,601	88,598	141,446	196,401	230,101

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35. DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets								
— Deferred tax asset to be utilised after 12 months	4,791	6,425	7,728	7,470	4,422	5,945	6,665	6,024
— Deferred tax asset to be utilised within 12 months	—	—	—	—	—	—	—	—
	4,791	6,425	7,728	7,470	4,422	5,945	6,665	6,024
Deferred tax liabilities								
— Deferred tax liability to be realised after 12 months	—	—	—	—	—	—	—	—
— Deferred tax liability to be realised within 12 months	(217)	(375)	(142)	(295)	—	—	—	—
	(217)	(375)	(142)	(295)	—	—	—	—

Movements in the net deferred taxation assets/(liabilities) are as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009

	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/ period	4,012	4,574	6,050	7,586	3,860	4,422	5,945	6,665
Credited to profit and loss in the statement of comprehensive income (Note 13)	1,067	2,219	582	389	1,067	2,503	—	—
Charged/(credit) to equity	(505)	(743)	954	(800)	(505)	(980)	720	(641)
At end of the year/period	4,574	6,050	7,586	7,175	4,422	5,945	6,665	6,024

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:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:								
Tax losses carried forward	—	20,507	16,068	15,047	—	20,507	16,068	15,047
Impairment provision for obsolete flight equipment spare parts	1,660	1,009	1,069	816	1,660	1,009	1,069	816
Impairment provision for receivables	512	613	1,220	1,533	143	133	157	87
Provision for overhaul expenses and return condition checks for aircraft under operating leases	10,632	6,773	19,291	22,959	10,632	6,773	19,291	22,959
Provision for frequent flyer program	10,010	16,088	18,892	18,415	10,010	16,088	18,892	18,415
Financial derivative instrument	—	—	34,492	9,639	—	—	34,492	9,639
Provision for post-retirement benefits	14,376	10,618	9,297	7,956	14,376	10,618	9,297	7,956
	37,190	55,608	100,329	76,365	36,821	55,128	99,266	74,919
Deferred tax liabilities:								
Depreciation and amortisation	(21,877)	(35,001)	(65,386)	(63,070)	(21,877)	(35,001)	(65,386)	(63,070)

Write back of long-aged sales in advance of carriage	(10,176)	(13,198)	(26,951)	(4,920)	(10,176)	(13,198)	(26,951)	(4,920)
Available-for-sale financial assets	(563)	(1,359)	(406)	(1,200)	(346)	(984)	(264)	(905)
	(32,616)	(49,558)	(92,743)	(69,190)	(32,399)	(49,183)	(92,601)	(68,895)

Movements of the net deferred tax assets of the Target Group for the Relevant Periods are as follows:

	At the beginning of the year RMB'000	(Charged)/credited to Statement of comprehensive income RMB'000	Charged to equity RMB'000	At end of the year RMB'000
For the year ended 31 December 2006				
Impairment provision for obsolete flight equipment spare parts	1,761	(101)	—	1,660
Impairment provision for receivables	434	78	—	512
Provision for overhaul expenses and return condition checks for aircraft under operating leases	5,380	5,252	—	10,632
Provision for frequent flyer program	3,368	6,642	—	10,010
Provision for post-retirement benefits	7,736	6,640	—	14,376
	18,679	18,511	—	37,190
Depreciation and amortisation	(8,660)	(13,217)	—	(21,877)
Write back of long-aged sales in advance of carriage	(5,444)	(4,732)	—	(10,176)
Available-for-sale financial assets	(563)	505	(505)	(563)
	(14,667)	(17,444)	(505)	(32,616)
Net deferred tax assets	4,012	1,067	(505)	4,574
For the year ended 31 December 2007				
Tax losses carried forward	—	20,507	—	20,507
Impairment provision for obsolete flight equipment spare parts	1,660	(651)	—	1,009
Impairment provision for receivables	512	101	—	613
Provision for overhaul expenses and return condition checks for aircraft under operating leases	10,632	(3,859)	—	6,773
Provision for frequent flyer program	10,010	6,078	—	16,088
Provision for post-retirement benefits	14,376	(3,758)	—	10,618
	37,190	18,418	—	55,608
Depreciation and amortisation	(21,877)	(13,124)	—	(35,001)
	(10,176)	(3,022)	—	(13,198)

Write back of long-aged sales in advance of carriage				
Available-for-sale financial assets	(563)	(53)	(743)	(1,359)
	(32,616)	(16,199)	(743)	(49,558)
Net deferred tax assets	4,574	2,219	(743)	6,050

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	At the beginning of the year RMB'000	(Charged)/credited to Statement of comprehensive income RMB'000	Charged to equity RMB'000	At end of the year RMB'000
For the year ended 31 December 2008				
Tax losses carried forward	20,507	(4,439)	—	16,068
Impairment provision for obsolete flight equipment spare parts	1,009	60	—	1,069
Impairment provision for receivables	613	607	—	1,220
Provision for overhaul expenses and return condition checks for aircraft under operating leases	6,773	12,518	—	19,291
Provision for frequent flyer program	16,088	2,804	—	18,892
Financial derivative instrument	—	34,492	—	34,492
Provision for post-retirement benefits	10,618	(1,321)	—	9,297
	55,608	44,721	—	100,329
Depreciation and amortisation	(35,001)	(30,385)	—	(65,386)
Write back of long-aged sales in advance of carriage	(13,198)	(13,753)	—	(26,951)
Available-for-sale financial assets	(1,359)	(1)	954	(406)
	(49,558)	(44,139)	954	(92,743)
Net deferred tax assets	6,050	582	954	7,586
For the six months ended 30 June 2009				
Tax losses carried forward	16,068	(1,021)	—	15,047
Impairment provision for obsolete flight equipment spare parts	1,069	(253)	—	816
Impairment provision for receivables	1,220	313	—	1,533
Provision for overhaul expenses and return condition checks for aircraft under operating leases	19,291	3,668	—	22,959
Provision for frequent flyer program	18,892	(477)	—	18,415
Derivative financial instrument	34,492	(24,853)	—	9,639
Provision for post-retirement benefits	9,297	(1,341)	—	7,956
	100,329	(23,964)	—	76,365
Depreciation and amortisation	(65,386)	2,316	—	(63,070)

Write back of long-aged sales in advance of carriage	(26,951)	22,031	—	(4,920)
Available-for-sale financial assets	(406)	6	(800)	(1,200)
	(92,743)	24,353	(800)	(69,190)
Net deferred tax assets	7,586	389	(800)	7,175

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In accordance with the PRC tax law, tax losses can be carried forward to offset against future taxable income for a period of five years. For the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009, the Target Group had tax losses carried forward of approximately RMB81 million, RMB627 million, RMB1,855 million and RMB2,131 million respectively (The Target Company: 2006 : Nil; 2007 : RMB369 million; 2008 : RMB1,292 million; 2009 : RMB1,292 million respectively) which will expire between 2011 and 2014, and which are available to set off against the Target Group and the Target Company's future taxable income.

As at 31 December 2006, 2007 and 2008, and 30 June 2009, the Target Group did not recognise deferred tax assets of RMB24 million, RMB132 million, RMB445 million, and RMB519 million respectively (The Target Company: 2006 : Nil; 2007 : RMB67 million; 2008 : RMB304 million; 2009 : RMB307 million respectively) that arise from tax losses available as management did not consider it probable that such tax losses would be realised before they expire.

36. POST-RETIREMENT BENEFIT OBLIGATIONS

The Target Group provides certain funded and unfunded post-retirement benefits to certain employees. The expected cost of providing these post-retirement benefits is actuarially determined and recognized by using projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate and employee's turnover ratio.

The post-retirement benefit obligations recognized in the balance sheets are as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Present value of funded post-retirement benefit obligations	349,791	291,805	398,773	379,784	349,791	291,805	398,772	379,783
Fair value of plan assets	(32,394)	(43,914)	(73,156)	(73,659)	(32,394)	(43,914)	(73,156)	(73,659)
Present value of unfunded post-retirement benefit obligations	22,112	19,410	43,606	41,902	—	—	—	—
Unrecognised actuarial gain/(losses)	58,622	146,165	33,840	67,135	58,622	141,809	43,472	73,249
Post-retirement benefit								

obligations	398,131	413,466	403,063	415,162	376,019	389,700	369,088	379,373
Less: current portion (Note 29)	(1,378)	(1,503)	(1,727)	(1,881)	(1,371)	(1,496)	(1,648)	(1,802)
Long term portion	396,753	411,963	401,336	413,281	374,648	388,204	367,440	377,571

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Changes in post-retirement benefit obligations are as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	380,914	398,131	413,466	403,063	358,802	376,019	389,700	369,088
Total expenses charged in the profit and loss in the statement of comprehensive income	32,717	29,677	27,398	16,010	32,717	27,884	17,019	14,062
Payments	(15,500)	(14,342)	(37,801)	(3,911)	(15,500)	(14,203)	(37,631)	(3,777)
At 31 December/30 June	398,131	413,466	403,063	415,162	376,019	389,700	369,088	379,373

The movement in the fair value of plan assets of the year/period is as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	19,783	32,394	43,914	73,156	19,783	32,394	43,914	73,156
Expected return on plan assets	1,825	2,632	4,222	2,586	1,825	2,632	4,222	2,586
Actuarial (losses)/gain	(1,788)	(1,530)	(6,985)	(3,206)	(1,788)	(1,530)	(6,985)	(3,206)
Employer contributions	12,574	10,418	32,393	1,312	12,574	10,418	32,393	1,312
Benefits paid from the plan assets	—	—	(388)	(189)	—	—	(388)	(189)
At 31 December/30	32,394	43,914	73,156	73,659	32,394	43,914	73,156	73,659

June

The costs of post-retirement benefits are recognised under wages, salaries and benefits in the statement of comprehensive income as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current service cost	20,620	18,952	22,498	10,160	20,621	18,004	13,058	9,129
Interest cost	13,921	14,566	15,286	8,449	13,921	13,721	14,347	7,623
Actuarial gain	—	(1,209)	(6,164)	(13)	—	(1,209)	(6,164)	(104)
Expected return on plan assets	(1,825)	(2,632)	(4,222)	(2,586)	(1,825)	(2,632)	(4,222)	(2,586)
Total (Note 9)	32,716	29,677	27,398	16,010	32,717	27,884	17,019	14,062

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The principle actuarial assumptions used are as follows:

	Target Group				Target Company			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Discount rate	3.75%	4.75%	3.75%	4.00%	3.75%	4.75%	3.75%	4.00%
Annual rate of increase of per capita benefit payment	4%	4%	4%	4%	4%	4%	4%	4%
Expected return on plan assets	7%	7%	7%	7%	7%	7%	7%	7%
Employee turnover rate	3%	3%	3%	3%	3%	3%	3%	3%

37. SHARE CAPITAL

	Target Company			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Registered, issued and fully paid of RMB1.00 each				
A Shares with lock-up periods	691,500	453,851	314,048	222,222
A Shares without lock-up periods	390,000	627,649	767,452	1,081,500
	1,081,500	1,081,500	1,081,500	1,303,722

Pursuant to the Target Company's Articles of Association, all shares of the Company are registered ordinary shares and rank pari passu to each other.

On 6 January 2006, the shareholders of the Target Company approved a share conversion scheme. Pursuant to the approved share conversion scheme, for every 10 circulating shares held in the Target Company, each holder of circulating shares received 3 circulating shares from the private holders of the non-circulating shares in exchange for their permission to transfer the non-circulating shares held by the private investors into circulating shares. In this connection, the private investors of the non-circulating shares granted 90 million shares in total to the holders of the circulating shares. In addition, the non-circulating shares held by the private investors were granted the status of listing with a lock-up periods ranging from 12 to 36 months starting from 14 February 2006.

In June 2009, as approved by the Target Company's shareholders and China Securities Regulatory Commission, the Target Company issued 222,222,200 new A shares at RMB4.5 per share through private placement to one of the Target Company's shareholders, Jin Jiang International Holdings Co., Ltd. (''Jin Jiang International'') for cash of approximately RMB1 billion. After netting off the costs for the share issue, the net proceeds from the share issue was RMB980,440,000, of which RMB222,222,000 was recorded as share capital, with the remaining RMB758,218,000 recorded in share premium. The shares issued to Jin Jiang International are subject to a lock-up period of 36 months from 25 June 2009.

38. RESERVES

	Target Group				
	Share premium RMB'000	Statutory and discretionary reserve (Note (a)) RMB'000	Capital surplus RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2006	470,074	134,286	19,704	(315,301)	308,763
Profit attributable to equity holders of the Target Company	—	—	—	8,430	8,430
Other comprehensive income:	—	—	5,079	—	5,079
— Fair value movements of available-for-sale financial assets, net of tax	—	—	3,253	—	3,253
— Other income directly charged to reserves	—	—	1,826	—	1,826
Total comprehensive income for the year ended 31 December 2006	—	—	5,079	8,430	13,509
Dividends paid	—	—	—	(32,447)	(32,447)
Appropriations to statutory and discretionary reserves	—	5,304	—	(5,304)	—
At 31 December 2006	470,074	139,590	24,783	(344,622)	289,825
At 1 January 2007	470,074	139,590	24,783	(344,622)	289,825
Loss attributable to equity holders of the Target Company	—	—	—	(531,971)	(531,971)
Other comprehensive income:	—	—	3,169	—	3,169
— Fair value movements of available-for-sale financial assets, net of tax	—	—	1,440	—	1,440
— Other income directly charged to reserves	—	—	1,729	—	1,729
Total comprehensive income/(loss) for the year ended 31 December 2007	—	—	3,169	(531,971)	(528,802)
At 31 December 2007	470,074	139,590	27,952	(876,593)	(238,977)

At 1 January 2008	470,074	139,590	27,952	(876,593)	(238,977)
Loss attributable to equity holders of the Target Company	—	—	—	(1,199,420)	(1,199,420)
Other comprehensive loss:	—	—	(4,575)	—	(4,575)
— Fair value movements of available-for-sale financial assets, net of tax	—	—	(4,566)	—	(4,566)
— Other loss directly charged to reserves	—	—	(9)	—	(9)
Total comprehensive expense for the year ended 31 December 2008	—	—	(4,575)	(1,199,420)	(1,203,995)
At 31 December 2008	470,074	139,590	23,377	(2,076,013)	(1,442,972)

	Target Group				
	Share premium RMB'000	Statutory and discretionary reserve (Note (a)) RMB'000	Capital surplus RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2009	470,074	139,590	23,377	(2,076,013)	(1,442,972)
New shares issue (Note 37)	758,218	—	—	—	758,218
Loss attributable to equity holders of the Target Company	—	—	—	(270,547)	(270,547)
Other comprehensive income:	—	—	2,449	—	2,449
— Fair value movements of available- for-sale financial assets, net of tax	—	—	2,626	—	2,626
— Other income/(loss) directly charged to reserves	—	—	(177)	—	(177)
Total comprehensive income/(loss) for the six months ended 30 June 2009	—	—	2,449	(270,547)	(268,098)
At 30 June 2009	1,228,292	139,590	25,826	(2,346,560)	(952,852)
Unaudited					
At 1 January 2008	470,074	139,590	27,952	(876,593)	(238,977)
Profit attributable to equity holders of the Target Company	—	—	—	33,571	33,571
Other comprehensive loss:	—	—	(4,976)	—	(4,976)
— Fair value movements of available- for-sale financial assets, net of tax	—	—	(4,486)	—	(4,486)
— Other loss directly charged to reserves	—	—	(490)	—	(490)
Total comprehensive (loss)/income for the six months ended 30 June 2008	—	—	(4,976)	33,571	28,595
At 30 June 2008	470,074	139,590	22,976	(843,022)	(210,382)

Target Company

	Share premium RMB'000	Statutory and discretionary reserve (Note (a)) RMB'000	Capital surplus RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2006	470,074	134,286	17,261	(286,208)	335,413
Profit for the year	—	—	—	64,885	64,885
Other comprehensive income:	—	—	2,344	—	2,344
— Fair value movements of available-for-sale financial assets, net of tax	—	—	1,805	—	1,805
— Other income directly charged to reserves	—	—	539	—	539
Total comprehensive income for the year ended 31 December 2006	—	—	2,344	64,885	67,229
Dividends paid	—	—	—	(32,445)	(32,445)
Appropriations to statutory and discretionary reserves	—	5,304	—	(5,304)	—
At 31 December 2006	470,074	139,590	19,605	(259,072)	370,197
At 1 January 2007	470,074	139,590	19,605	(259,072)	370,197
Loss for the year	—	—	—	(423,799)	(423,799)
Other comprehensive income:	—	—	2,581	—	2,581
— Fair value movements of available-for-sale financial assets, net of tax	—	—	2,180	—	2,180
— Other income directly charged to reserves	—	—	401	—	401
Total comprehensive income/(loss) for the year ended 31 December 2007	—	—	2,581	(423,799)	(421,218)
At 31 December 2007	470,074	139,590	22,186	(682,871)	(51,021)
At 1 January 2008	470,074	139,590	22,186	(682,871)	(51,021)
Loss for the year	—	—	—	(987,819)	(987,819)
Other comprehensive loss:	—	—	(3,430)	—	(3,430)
	—	—	(3,431)	—	(3,431)

— Fair value movements of available-for-sale financial assets, net of tax					
— Other income directly charged to reserves	—	—	1	—	1
Total comprehensive loss for the year ended 31 December 2008	—	—	(3,430)	(987,819)	(991,249)
At 31 December 2008	470,074	139,590	18,756	(1,670,690)	(1,042,270)

	Target Company				
	Share premium RMB'000	Statutory and discretionary reserve (Note (a)) RMB'000	Capital surplus RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2009	470,074	139,590	18,756	(1,670,690)	(1,042,270)
New share issue (Note 37)	758,218	—	—	—	758,218
Loss for the period	—	—	—	(11,853)	(11,853)
Other comprehensive income:	—	—	1,972	—	1,972
Fair value movements of available for sale investments	—	—	2,153	—	2,153
Other loss directly charge to reserve	—	—	(181)	—	(181)
Total comprehensive income/(loss) for the six months ended 30 June 2009	—	—	1,972	(11,853)	(9,881)
At 30 June 2009	1,228,292	139,590	20,728	(1,682,543)	(293,933)
Unaudited					
At 1 January 2008	470,074	139,590	22,186	(682,871)	(51,021)
Profit for the period	—	—	—	82,370	82,370
Other comprehensive loss:	—	—	(4,485)	—	(4,485)
Fair value movements of available for sale investments	—	—	(4,485)	—	(4,485)
Total comprehensive (loss)/income for the six months ended 30 June 2008	—	—	(4,485)	82,370	77,885
At 30 June 2008	470,074	139,590	17,701	(600,501)	26,864

Note:

(a) Statutory and Discretionary Reserves

In accordance with the PRC regulations and the Articles of Association of the companies within the Target Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under Accounting Standards for Business Enterprises (2006) of the PRC (''PRC GAAP'') to the statutory common reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory common reserve fund can be utilised to offset prior years' losses or to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Each of the Target Group companies is permitted to transfer 5% of its profit for the year as determined under the PRC GAAP, to a discretionary common reserve fund. The transfer to this reserve is subject to approval at shareholders' meetings.

The Target Company made RMB 5,304,000 to discretionary common reserve fund in year ended 31 December 2006. No profit appropriation by the Target Company to the discretionary common reserve fund was made in the years ended 31 December 2007 and 2008 and the six months ended 30 June 2008 and 30 June 2009.

39. NOTE TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from operations

		Year ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Profit/(loss) before income tax		16,120	(555,580)	(1,290,450)	(59,697)	(245,444)
Adjustments for:						
Depreciation of property, plant and equipment		644,237	735,809	713,104	351,160	406,447
(Gains)/losses on disposals of property, plant and equipment		(20,223)	120,780	(14,877)	(123)	1,294
Share of results of associates		(5,831)	(6,265)	(8,087)	(5,007)	(4,447)
Share of results of jointly controlled entities		1,629	(3,799)	(1,245)	(440)	(2,943)
Amortisation of lease prepayments and intangible assets		10,105	11,105	13,167	6,336	8,069
Net foreign exchange gains		(135,888)	(272,440)	(280,705)	(291,806)	(3,793)
Loss/(gain) arising from fair value movements of derivative financial instrument		—	—	172,458	—	(114,421)
Consumption of flight equipment spare parts		92,999	124,011	150,911	75,633	82,370
Provision for impairment of trade and other receivables		3,948	13,599	1,449	—	2,407
Provision for frequent flyer programme		18,571	21,321	(15,242)	10,956	36,369
Provision for return condition checks for aircraft under operating leases		73,440	86,989	126,805	51,701	75,272
		32,717	29,677	27,398	8,675	16,010

Provision for post-retirement benefit obligation					
Interest income	(7,214)	(11,041)	(16,270)	(6,258)	(8,058)
Interest expenses	273,895	374,964	396,834	204,578	181,783
Loss on disposal of available-for-sale financial assets	—	(2,054)	6,099	—	—
Operating profit/(loss) before working capital changes	998,505	667,076	(18,651)	345,708	430,915
Changes in working capital					
Flight equipment spare parts	(191,860)	(148,162)	(235,106)	(131,588)	(91,703)
Trade receivables	(163,346)	(230,381)	278,221	40,507	39,433
Amount due from related companies	(225)	(1,531)	(3,984)	14,683	2,805
Prepayments, deposits and other receivables	102,786	(232,838)	134,316	(74,333)	(123,429)
Sales in advance of carriage	18,151	34,384	46,312	7,951	(43,997)
Trade payables and notes payables	135,049	189,003	169,263	(74,911)	(61,230)
Amounts due to related companies	—	2,445	2,068	(2,445)	7,826
Other payables and accrued expenses	635,139	614,140	52,097	(330,263)	(100,009)
Other long-term liabilities	—	—	17,990	(37,218)	(2,669)
Payments for return condition checks for aircraft under operating leases	—	(27,240)	—	—	—
Post-retirement benefit obligations	(15,500)	(14,342)	(37,801)	(18,816)	(3,911)
Cash generated from operations	1,518,699	852,554	404,725	(260,725)	54,031

(b) Non-cash transactions

	Note	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Six months ended 30 June 2008 RMB'000 (Unaudited)	2009 RMB'000
Financing activities not affecting cash:						
Finance lease obligations incurred for acquisition of aircraft		—	522,126	736,152	—	—

40. COMMITMENTS

(a) Capital commitments

The Target Group and the Target Company had the following capital commitments:

	Target Group and Target Company			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised and contracted for:				
— Aircraft, engines and flight equipment	11,062,187	10,453,109	8,719,934	8,130,733
— Other property, plant and equipment	92,161	68,533	32,116	—
	11,154,348	10,521,642	8,752,050	8,130,733
Authorised but not contracted for:				
— Other property, plant and equipment	74,800	60,760	146,930	108,020
	11,229,148	10,582,402	8,898,980	8,238,753

Contracted expenditures for the above aircraft and flight equipment, including deposits prior to delivery, subject to adjustments based on future inflation increases built into the contracts and discounts available upon delivery of the aircraft, if any, were expected to be paid as follows:

Target Group and Target Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,194,338	1,133,524	1,533,090	1,852,686
In the second year	1,211,750	1,638,517	1,867,702	1,745,552
In the third year	1,607,061	1,996,140	1,722,215	1,946,547
In the fourth year	1,745,057	1,840,648	1,622,188	1,338,945
After the fourth year	5,303,981	3,844,280	1,974,739	1,247,003
	11,062,187	10,453,109	8,719,934	8,130,733

(b) Operating lease commitments

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

Target Group

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Aircraft, engines and flight equipment				
Within one year	943,476	1,075,939	1,135,156	1,130,667
In the second year	850,292	1,041,870	1,110,454	1,087,212
In the third to fifth year inclusive	2,406,103	2,782,238	2,805,816	2,641,298
After the fifth year	1,683,051	1,924,848	1,760,655	1,383,994
	5,882,922	6,824,895	6,812,081	6,243,171
Land and buildings				
Within one year	—	53,536	81,369	81,525
In the second year	—	81,369	81,525	81,525
In the third to fifth year inclusive	—	223,431	208,506	201,044
After the fifth year	—	1,527,936	1,461,335	1,428,035
	—	1,886,272	1,832,735	1,792,129
	5,882,922	8,711,167	8,644,816	8,035,300

Target Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Aircraft, engines and flight equipment				
Within one year	591,473	741,620	777,818	768,912
In the second year	580,759	736,641	764,959	755,517
In the third to fifth year inclusive	1,745,025	1,948,723	1,867,024	1,727,824
After the fifth year	1,216,972	1,168,256	1,022,697	785,930
	4,134,229	4,595,240	4,432,498	4,038,183

Explanation of Responses:

41.RELATED PARTY TRANSACTIONS

Shanghai Alliance Investment Limited (''Shanghai Alliance'') is the single largest shareholder of the Target Company and owns approximately 29.64% of the Target Company's shares as at 30 June 2009. Shanghai Alliance had owned 35.75% of the Target Company's shares throughout the Relevant Periods until the completion of the Target Company's new share issued to Jin Jiang International in June 2009 (Note 37), thereafter which Shanghai Alliance's share percentage in the Target Company has been diluted to 29.64%. The aviation industry in the PRC is administrated by CAAC. Shanghai Alliance and the Target Group is ultimately controlled by the PRC government, which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the ''SOEs'').

(a) Related party transactions

The Target Group sells air tickets through sales agents and is therefore likely to have extensive transactions with other state-controlled enterprises, and the employees and their close family members of SOEs while such employees are on corporate business. These transactions are carried out on normal commercial terms that are consistently applied to all of the Target Group's customers. Due to the large volume and the pervasiveness of these transactions, the Target Company's management is unable to determine the aggregate amount of the transactions for disclosure. Therefore, retail transactions with these related parties are not disclosed herein. The directors of the Target Company believe that meaningful related party disclosures on these retail transactions have been adequately made.

During the Relevant Periods, the Target Group has entered the following major transactions with the related parties:

			Year ended 31 December		Six months ended 30 June	
Nature of transaction	Related party	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
With jointly controlled entity						
Equipment manufacturing and maintenance	Shanghai Hute Aviation Tech. Co. Ltd	10,715	17,296	18,260	8,145	13,490
With CAAC and its affiliates:						
Civil aviation infrastructure levies paid	CAAC	(183,320)	(220,252)	(235,739)	(114,881)	(130,468)
Aircraft insurance premiums paid/ payable through CAAC which entered into the insurance policy on behalf of the Target Group	CAAC	(39,026)	(42,445)	(32,714)	(15,483)	(15,210)

With other SOE						
Take-off and landing fee charges	State-controlled airports	(655,958)	(755,028)	(828,494)	(392,137)	(463,495)
Purchase of aircraft fuel	State-controlled fuel suppliers	(2,339,314)	(2,742,042)	(3,681,050)	(1,564,395)	(1,134,289)
Interest income	State-controlled banks	7,125	10,473	15,638	6,015	7,909
Interest expense on loans	State-controlled banks	(251,210)	(361,391)	(395,733)	(200,410)	(213,695)
Purchase of food and beverages for passenger business	State-controlled enterprises	(106,498)	(98,294)	(110,035)	(50,687)	(59,099)

(b) Balances with related companies

(i) Amounts due from/to related companies

Amounts due from/to related parties at balance sheet date are trade in nature, interest free and payable within normal credit terms given to trade customers/trade creditors.

(ii) Amounts due from subsidiaries

Amounts due from subsidiaries are interests bearing at interest rates ranging from 5.51% to 5.56%, 5.51% to 6.50%, 5.51% to 7.10%, 5.13% to 5.58% per annum respectively for the years ended 31 December 2006, 2007, 2008 and six months ended 30 June 2009, all balances are repayable within one year.

In addition, as at 31 December 2006, 2007, 2008 and 30 June 2009, the Target Company provided guarantees to certain of its subsidiaries for borrowings of approximately RMB101 million, RMB142 million, RMB132 million, and RMB127 million respectively.

(iii) State-controlled banks and other financial institutions

	Average interest rate			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
Bank deposits (included in cash and cash equivalents)	0.7%	0.7%	0.4%	0.4%
Long-term bank borrowings	5.783%	5.724%	4.503%	3.571%

	Target Group			
	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Bank deposits (included in cash and cash equivalents)	599,549	908,346	1,031,909	1,915,132
Long-term bank borrowings	3,338,230	2,999,423	3,587,600	4,204,280

	Target Company			
	As at 31 December			As at 30 June

	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Bank deposits (included in cash and cash equivalents)	286,972	354,788	412,673	1,449,274
Long-term bank borrowings	3,338,230	2,971,423	3,559,600	4,146,280

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(c) Key management compensation

	Target Group				
	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, bonus, allowances and benefits	3,632	3,708	4,218	2,374	2,476

42. POST BALANCE SHEET EVENTS

On 10 July 2009, the Target Company entered into an agreement with the Company in relation to a proposed absorption of the Target Company by the Company through share exchanges at the rate of 1.3 A Shares of the Company in exchange of 1 share of the Target Company (i.e. in aggregate a maximum of 1,694,838,860 A Shares of the Company in exchange of 1,303,722,200 shares of the Target Company). An extraordinary shareholders' meeting will be convened to approve the proposed absorption (the ''Absorption Proposal'').

Upon full implementation of the terms of the Absorption Proposal, after the approvals by the shareholders of the Company and the Target Company, together with the requisite consents and approvals from the relevant government authorities have been obtained, all the assets, business, staff and rights of the Target Company, including but not limited to all operating licence, registration and filing and route operating rights, will be absorbed into and all the liabilities of the Target Company will be assumed by the Company or a wholly owned subsidiary of the Company to be used to absorb all the assets and assume all the liabilities of the Target Company.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2009. No dividend or distribution has been declared, made or paid by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2009.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION

As extracted from Appendix III to the circular to the shareholders of the Company dated 25 August 2009, set out below are the unaudited pro forma consolidated statement of assets and liabilities of CEA Group and Shanghai Airlines (together, the ''Enlarged Group'' as defined in the above circular) and the statement of adjusted consolidated net tangible assets of CEA Group and unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group, assuming that the acquisition of Shanghai Airlines had been completed as at 30 June 2009. The unaudited pro forma financial information has been prepared based on the unaudited condensed consolidated balance sheet of the CEA Group as at 30 June 2009 as extracted from the interim result announcement of the Company for the six months ended 30 June 2009, and the audited consolidated balance sheet of Shanghai Airlines as at 30 June 2009 as extracted from the accountant's report of Shanghai Airlines as set out in Appendix I to the circular dated 25 August 2009.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and because of their hypothetical nature, they may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed as at 30 June 2009 or at any future date.

(I) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is compiled based on the unaudited condensed consolidated balance sheet of the Group as at 30 June 2009 as extracted from the interim result announcement of the Company for the six months ended 30 June 2009, and the audited consolidated balance sheet of the Target Group as at 30 June 2009 as extracted from the accountant's report of the Target Group as set out in Appendix I to this circular.

			Pro forma adjustments		
	Unaudited condensed consolidated statement of assets and liabilities of the Group as at 30 June 2009 RMB'000 (Note 1)	Audited consolidated statement of assets and liabilities of the Target Group as at 30 June 2009 RMB'000 (Note 2)	Other pro forma adjustments RMB'000		Pro forma consolidated balances of the Enlarged Group as at 30 June 2009 RMB'000
ASSETS					
Non-current assets					
Intangible assets	116,402	21,874	379,355	(Note 3(a))	10,068,429
			9,550,798	(Note 3(b))	
Property, plant and equipment	53,351,228	8,696,469	(1,700,625)	(Note 3(a))	60,347,072
Lease prepayments	983,767	117,244	368,351	(Note 3(a))	1,469,362

Advanced payments on acquisition of aircraft	5,667,142	2,966,923		8,634,065
Investments in jointly controlled entities	370,502	19,587		390,089
Investments in associates	703,710	55,085		758,795
Available-for-sale financial assets	61,268	181,945		243,213
Other long-term assets	874,585	542,208		1,416,793
Deferred tax assets	110,475	7,470		117,945
	62,239,079	12,608,805		83,445,763

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	Unaudited condensed consolidated statement of assets and liabilities of the Group as at 30 June 2009	Pro forma adjustments: Audited consolidated statement of assets and liabilities of the Target Group as at 30 June 2009	Pro forma adjustments: Other pro forma adjustments	Pro forma consolidated balances of the Enlarged Group as at 30 June 2009
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB'000
Current assets				
Flight equipment spare parts	918,384	392,576		1,310,960
Trade receivables	1,263,507	489,262		1,752,769
Amounts due from related companies	204,757	2,935		207,692
Prepayments, deposits and other receivables	3,954,369	749,070		4,703,439
Cash and cash equivalents	3,796,963	1,951,542		5,748,505
Derivative assets	208	—		208
Non-current assets held for sale	462,700	—		462,700
	10,600,888	3,585,385		14,186,273
TOTAL ASSETS	72,839,967	16,194,190		97,632,036
LIABILITIES				
Current liabilities				
Sales in advance of carriage	(1,119,648)	(194,547)		(1,314,195)
Trade payables and notes payable	(4,420,470)	(1,340,061)		(5,760,531)
Amounts due to related companies	(476,539)	(12,339)		(488,878)
Other payables and accrued expenses	(11,407,689)	(1,744,648)		(13,152,337)
Current portion of obligations under finance leases	(2,018,328)	(71,861)		(2,090,189)
Current portion of borrowings	(22,723,843)	(7,203,120)		(29,926,963)
Income tax payable	(22,285)	(20,250)		(42,535)
Current portion of provision for aircraft overhaul expenses	(333,547)	—		(333,547)
Derivative liabilities	(2,229,316)	(58,037)		(2,287,353)
	(44,751,665)	(10,644,863)		(55,396,528)
Non-current liabilities				
Obligations under finance leases	(18,379,006)	(1,048,516)		(19,427,522)

Borrowings	(9,851,317)	(2,854,788)	(12,706,105)
Provision for aircraft overhaul expenses	(1,344,391)	(599,063)	(1,943,454)
Other long-term liabilities	(1,264,318)	(233,601)	(1,497,919)
Deferred tax liabilities	(41,139)	(295)	(41,434)
Post-retirement benefit obligations	(1,648,420)	(413,281)	(2,061,701)
Derivative liabilities	(129,578)	—	(129,578)
	(32,658,169)	(5,149,544)	(37,807,713)
TOTAL LIABILITIES	(77,409,834)	(15,794,407)	(93,204,241)
NET (LIABILITIES)/ASSETS	(4,569,867)	399,783	4,427,795

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Notes:

1. The balances are extracted from the unaudited condensed consolidated balance sheet of the Group as at 30 June 2009as set out in the interim result announcement dated 10 August 2009, which is set out in Appendix II to this circular.

2. The adjustment represents the inclusion of the statement of assets and liabilities of the Target Group as at 30 June2009 as extracted from the accountant's report of the Target Group as set out in Appendix I to this circular.

3. The adjustments reflect the allocation of the cost of the acquisition to the identifiable assets and liabilities of the Target Group, which represents:

(a) fair value adjustment of the identifiable assets and liabilities of the Target Group

Upon completion of the Proposed Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with International Financial Reporting Standard No. 3 ''Business Combinations'' (''IFRS 3''). The identifiable assets and liabilities of the Target Group are recorded in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group at their fair values estimated by the Directors with reference to a valuation report issued by an independent valuer. The pro forma adjustments represent the fair value adjustments on property, plant and equipment, intangible assets and lease prepayments of the Target Group amounting to RMB1,700,625,000 in negative, RMB379,355,000 and RMB368,351,000 respectively.

(b) recognition of goodwill

Goodwill represents the excess of the cost of the acquisition over the estimated fair value of the identifiable net assets of the Target Group. The cost of acquisition is calculated based on the Company's 1,694,838,860 A Shares to be issued in connection with the Proposed Acquisition and the average trading price of A Share at RMB5.28 for a period of 20 trading days up to and including 5 June 2009, being the last trading day immediately before the suspension of trading of A Shares on the Shanghai Stock Exchange prior to 30 June 2009. The estimated fair value of the identified net assets of the Target Group as at 30 June 2009 is determined based on the Target Group's net asset value attributable to the equity holders of the Target Company amounting to RMB350,870,000 and the fair value adjustments on property, plant and equipment, intangible assets and lease prepayments as set out in Note 3(a) above.

Since the closing share price of A share on the date of Completion and the fair value of the identifiable assets and liabilities of the Target Group at the date of Completion may be substantially different from their respective values used in the Unaudited Pro Forma Financial Information, the final amount of goodwill may be different from the amount presented above.

4. No other adjustment has been made to reflect any trading result or other transaction of the Group and the Target Group entered into subsequent to 30 June 2009.

(II) STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP AND UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The statement of adjusted consolidated net tangible assets of the Group before completion of the Proposed Acquisition is compiled based on the unaudited condensed consolidated balance sheet of the Group as at 30 June 2009 as extracted from the interim result announcement of the Company for the six months ended 30 June 2009. The unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group after completion of the Proposed Acquisition is compiled based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2009 as set out in this Appendix:

Adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2009	Adjusted consolidated net tangible assets of the Group per Share as at 30 June 2009	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group attributable to the equity holders of the Company as at 30 June 2009	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group per Share as at 30 June 2009
RMB'000	RMB'000	RMB'000	RMB'000
(Note 1)	(Note 2)	(Note 3)	(Note 4)
(5,187,366)	(0.67)	(6,190,644)	(0.66)

Notes:

1. The adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2009 of RMB5,187,366,000 in negative is derived from the unaudited condensed consolidated balance sheet of the Group as set out in Appendix II to this circular, which is based on the unaudited consolidated net liabilities of the Group attributable to the equity holders of the Company as at 30 June 2009 of RMB5,070,964,000 with an adjustment for intangible assets as at 30 June 2009 of RMB116,402,000.

2. The adjusted consolidated net tangible assets of the Group per Share as at 30 June 2009 is determined based on 7,741,700,000 Shares issued and outstanding as at 30 June 2009.

3. The unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group attributable to the equity holders of the Company as at 30 June 2009 of RMB6,190,644,000 in negative is derived from the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in section I of this appendix, which is based on the unaudited pro forma consolidated net assets of the Enlarged Group attributable to the equity holders of the Company as at 30 June 2009 of RMB3,877,785,000 with an adjustment for intangible assets as at 30 June 2009 of RMB10,068,429,000.

4. The unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group per Share as at 30 June 2009 is determined based on 9,436,538,860 Shares assumed to be issued and outstanding as at 30 June 2009,

representing 7,741,700,000 existing Shares and 1,694,838,860 new A Shares to be issued pursuant to the Proposed Acquisition.

5. No other adjustment has been made to reflect any trading result or other transaction of the Group and the Target Group entered into subsequent to 30 June 2009.

INDEBTEDNESS OF THE GROUP

As at the Latest Practicable Date, the Company had already completed the acquisition of Shanghai Airlines through share exchanges. Set out below is the indebtedness position of the Group as at 31 December 2009.

Borrowings

At the close of business on 31 December 2009, being the latest practicable date for the purpose of this indebtedness statement, the Group had the following borrowings:

		Unsecured		
	Secured RMB'000	Guaranteed RMB'000	Non-guaranteed RMB'000	Total RMB'000
Short-term bank loans	170,643	286,000	11,861,869	12,318,512
Notes payable	36,902	—	5,740,615	5,777,517
Long-term bank loans	12,590,790	422,198	8,937,898	21,950,886
Finance lease obligations	20,454,572	—	—	20,454,572
Loan from an associate, Eastern Air Group Finance Co., Ltd. (''EAGF'')	—	—	987,110	987,110
	33,252,907	708,198	27,527,492	61,488,597

Secured short-term bank loans were secured by bank deposits of RMB171,135,000.

Certain notes payable were secured by bank deposits of RMB7,080,000.

Secured long-term bank loans were secured by certain aircrafts and other fixed assets with an aggregate carrying amount of RMB19,319,250,000 and RMB167,341,000 respectively.

Finance lease obligations were secured by the related aircrafts under finance leases with an aggregate carrying amount of RMB28,513,933,000 and the relevant insurance policies and bank guarantees.

The unsecured guaranteed short-term and long-term loans were guaranteed by CEA Holding, Bank of China or China Construction Bank.

Material Capital Commitments

Details of the material capital commitments of the Group as at 31 December 2009 are set out as follows:

	RMB'000
Authorised and contracted for:	
— Aircraft, engines and flight equipment	83,007,505
— Other property, plant and equipment	561,055
	83,568,560
Authorised but not contracted for:	
— Aircraft, engines and flight equipment	3,072,690
— Other property, plant and equipment	3,479,181
— Other	3,100,700
	9,652,571
Total capital commitments	93,221,131

Contracted expenditure for the above aircraft, engines and flight equipment, including deposits prior to delivery and subject to future inflation increases built into the contracts and discounts available upon delivery of the aircraft (if any), were expected to be paid as follows:

	RMB'000
Within 1 year	12,283,028
In the second year	12,718,939
In the third year	18,289,264
In the fourth year	20,508,013
Over four years	19,208,261
	83,007,505

Contingent Liability

In 2005, the family members of certain victims in the aircraft (the aircraft was then owned and operated by China Eastern Air Yunnan Company) accident, which occurred in Baotou on 21 November 2004, sued the Company in a U.S. court for compensation. On 5 July 2007, pursuant to several conditions with which the Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non convenience for the purpose of permitting proceedings in the PRC. On 20 February 2008, the plaintiffs filed a motion with the Superior Court of the State of California to lift the stay, but the motion was rejected by the court on 6 May 2008. The plaintiffs filed a second motion to lift the stay on 10 July 2008. On 27 August 2008, the Superior Court of the State of California rejected the motion of the plaintiffs again. After the case entered the procedures on appeal in

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the California Court of Appeal, the Court of Appeal of California issued an opinion on 26 February 2009, dismissing the appeal of the plaintiffs and affirming the original order. On 16 March 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and no official summons from the court has been received by the Company. The management of the Group believes that even if there would be a negative outcome for this case, it will not have an adverse effect on the financial condition and results of operations of the Company.

General

Save as aforesaid and apart from intra-group liabilities, the Group did not have (a) any other debt securities issued and outstanding, and authorised or otherwise created but unissued; (b) any other term loans; (c) any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (d) any other mortgages or charges; or (e) any other material guarantees or contingent liabilities at the close of business on 31 December 2009.

The management of the Company confirms that, according to the management accounts of the Company, the indebtedness position of the Company has not substantially changed during the period from 31 December 2009 to the end of January 2010.

SUFFICIENCY OF WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements, that is at least for the next 12 months from the date of this circular, in the absence of any unforeseeable circumstances.

TRADING AND FINANCIAL PROSPECTS

Trading prospects

As an aviation enterprise which performs public service functions, the operation of the Group is linked closely to political and economic situations, both internationally and locally. As such, the operation of the Group and of the whole sector is, to a great extent, subject to the risks associated with geopolitics and the outbreaks of unexpected events.

The Company is of the view that the global economy is expected to recover in 2010, in which the emerging economy in Asia will take the lead and China's economy will anticipate rebound. However, the international oil price, the imbalance in global trading and the frequent occurrence of natural disasters will bring uncertainties for the global economic environment. Nevertheless, benefits from factors such as further reform and opening-up of China, the continual upgrade of consumption pattern in China and the convening of Shanghai World Expo, the demand for air transport in 2010 will grow greater.

The Company will take this opportunity to make timely adjustments to its capacity and routes structure, thereby enhancing its revenue in air transport.

Explanation of Responses:

Financial outlook

The Directors believe that the growth of China's air passenger and cargo traffic will recover in 2010 and beyond, reflecting a progressively growth in China's economic and trade, the upgrade of domestic consumption pattern and the growth of business and leisure travel. At the same time, the completion of the reorganisation between the Company and Shanghai Airlines will greatly increase the competitiveness of the Company in the industry. The convening of Shanghai World Expo will increase the market demand. The Company expects that the revenue of the Company will maintain the growth and the profitability of the Company may hopefully raise.

MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2008, being the date to which the latest published audited accounts of the Company have been made up.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS

Directors, supervisors, chief executives and senior management

The interests of the Directors, supervisors, chief executives and senior management in the issued share capital of the Company as at the Latest Practicable Date were set out as follows:

		Number and type of shares held and nature of interest				
Name	Position	Personal	Family	Corporate	Total	Capacity in which the A Shares were held
Liu Shaoyong	Chairman, Director	—	—	—	0	—
Li Jun	Vice Chairman, Director	—	—	—	0	—
Ma Xulun	Director	—	—	—	0	—
Luo Chaogeng	Director	6,600 A Shares (Note 1)	—	—	6,600 A Shares (Note 1)	Beneficial owner
Luo Zhuping	Director, Company secretary	11,616 A Shares (Note 2)	—	—	11,616 A Shares (Note 2)	Beneficial owner
Wu Baiwang	Independent non-executive Director	—	—	—	0	—
Xie Rong	Independent non-executive Director	—	—	—	0	—
Sandy Ke-Yaw Liu	Independent non-executive Director	—	—	—	0	—
Wu Xiaogen	Independent non-executive Director	—	—	—	0	—
Ji Weidong	Independent non-executive Director	—	—	—	0	—
Liu Jiangbo	Chairman of the Supervisory Committee	—	—	—	0	—
Xu Zhao	Supervisor	—	—	—	0	—
Feng Jinxiong	Supervisor	—	—	—	0	—
Yan Taisheng	Supervisor	—	—	—	0	—
Liu Jiashun	Supervisor	3,960 A Shares (Note 3)	—	—	3,960 A Shares (Note 3)	Beneficial owner

Zhang Jianzhong	Vice President	—	—	—	0	—
Li Yangmin	Vice President	3,960 A Shares (Note 3)	—	—	3,960 A Shares (Note 3)	Beneficial owner
Fan Ru	Vice President	3,696 A Shares (Note 4)	—	—	3,696 A Shares (Note 4)	Beneficial owner
Zhao Jinyu	Vice President	—	—	—	0	—
Tang Bing	Vice President	—	—	—	0	—
Wu Yongliang	Chief Financial Officer	3,696 A Shares (Note 4)	—	—	3,696 A Shares (Note 4)	Beneficial owner

Note 1: representing approximately 0.000085% of the Company's total issued and listed A Shares, totalling 7,782,213,860 A Shares, as at the Latest Practicable Date.

Note 2: representing approximately 0.000149% of the Company's total issued and listed A Shares, totalling 7,782,213,860 A Shares, as at the Latest Practicable Date.

Note 3: representing approximately 0.000051% of the Company's total issued and listed A Shares, totalling 7,782,213,860 A Shares, as at the Latest Practicable Date.

Note 4: representing approximately 0.000047% of the Company's total issued and listed A Shares, totalling 7,782,213,860 A Shares, as at the Latest Practicable Date.

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

Each of Liu Shaoyong, Li Jun and Luo Chaogeng was as at the Latest Practicable Date a director or employee of CEA Holding, which, as disclosed below, was a company having, as at the Latest Practicable Date, an interest in the Company's shares required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MISCELLANEOUS

Company Officers

Mr. Luo Zhuping, who is a holder of a Master's degree in global economics, is a Director and the secretary of the Company.

Service Contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within a year without payment of any compensation (other than statutory compensation).

Competing interests

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's business) which competes or is likely to compete either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

Interests in the Group's assets or contracts or arrangements significant to the Group

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest in any assets which have been, since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

Litigation

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 on 21 November 2004, sued the Company in a U.S. court for compensation. On 5 July 2007, pursuant to several conditions with which the Company has complied, the Superior Court of the State of California ordered the action stayed on the grounds of forum non-conveniens for the purpose of permitting proceedings in the PRC. On 20 February 2008, the plaintiff filed a motion with the Superior Court of the State of California to lift the stay, but the motion was rejected by the court on 6 May 2008. The plaintiff filed a second motion to lift the stay on 10 July 2008. On 27 August 2008, the Superior Court of the State of California rejected the motion of the plaintiff again. After the case entered the procedures on appeal in the California Court of Appeal, the Court of Appeal of California issued an option on 26 February 2009, dismissing the appeal of the plaintiff and affirming the original order. On 16 March 2009, the Chinese counsel of the plaintiff sued the Company on behalf of the family members of victims in the Beijing No. 2 Intermediate People's Court. The case is under the filing procedure and no official summons from the court has been received by the Company.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any litigation or claim of material importance pending or threatened against any member of the Group.

Material contracts

On 29 December 2008, CEA Holding entered into a subscription agreement with the Company, pursuant to which, CEA Holding will subscribe in cash for 1,437,375,000 new A Shares at the subscription price of RMB3.87 per A Share. On the same day, CES Global entered into another subscription agreement with the Company, pursuant to which, CES Global will subscribe in cash for 1,437,375,000 new H Shares at the subscription price of RMB1.00 per H Share. Details of the above agreements are disclosed in the circular of the Company dated 8 January 2009.

On 25 February 2009, Jin Jiang International Holdings Co., Ltd ( ) (''Jin Jiang International'') entered into a agreement with Shanghai Airlines, pursuant to which, Jin Jiang International will subscribe in cash for 222,222,200 new A shares of Shanghai Airlines at the subscription price of RMB4.50 per A share of Shanghai Airlines. Details of the agreement is disclosed in the announcement of Shanghai Airlines published on the Shanghai Stock Exchange on 26 February 2009.

On 10 July 2009, CEA Holding entered into a subscription agreement with the Company, pursuant to which, CEA Holding will subscribe in cash for not more than 490,000,000 new A Shares at the subscription price of not less than RMB4.75 per A Share. On the same day, CES Global entered into another subscription agreement with the Company, pursuant to which, CES Global will 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. Details of the above agreements are disclosed in the circular of the Company dated 24 July 2009.

On 10 July 2009, the Company and Shanghai Airlines entered into an absorption agreement in relation to the absorption proposal, which involve the issue of 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. Details of the above agreement is disclosed in the circular of the Company dated 25 August 2009.

Explanation of Responses:

Save as disclosed above, no material contract (not being contract entered into in the ordinary course of business) has been entered into by any member of the Group within the two years immediately preceding the issue of this circular.

Documents for inspection

Copies of the following documents are available for inspection during normal business hours at the offices of Baker & McKenzie, 23rd Floor, One Pacific Place, 88 Queensway, Hong Kong for a period of 14 days (excluding Saturdays and Sundays) from the date of this circular:

(1) the Articles of Association;

(2) the Company's 2007 and 2008 annual reports;

(3) a copy of each contract set out in the paragraph headed ''Material Contracts'' in this Appendix;

(4) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts of the Company; and

(5) the Agreement.