CHINA EASTERN AIRLINES CORP LTD
Form 20-F
April 24, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

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

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

Commission file number 1-14550

(Exact Name of Registrant as Specified in Its Charter)

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

Kong Gang San Lu, Number 92,

Shanghai, 200335

People's Republic of China

Tel: (8621) 6268-6268

Fax: (8621) 6268-6116

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2011, 7,782,213,860 Ordinary Domestic Shares, par value RMB1.00 per share, were issued and outstanding, and 3,494,325,000 Ordinary H Shares par value RMB1.00 per share, were issued and outstanding. H Shares are Ordinary Shares of the Company listed on The Stock Exchange of Hong Kong Limited. Each American

Depositary Share represents 50 Ordinary H Shares.

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

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

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

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

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

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

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

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

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

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

SUPPLEMENTAL INFORMATION AND EXCHANGE RATES

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

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

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

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

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

- our fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;
- the planned expansion of our cargo operations;

- the impact of changes in the policies of the Civil Aviation Administration of China, or the CAAC, regarding route rights;
- the impact of the CAAC policies regarding the restructuring of the airline industry in China;
- the impact of macroeconomic fluctuations (including the fluctuations of oil prices, and interest and exchange rates);
- certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;
- our expansion plans, including possible acquisition of other airlines;
- our marketing plans, including the establishment of additional sales offices;
- our plan to add new pilots;
- our plan to expand cargo operations; and
- the impact of unusual events on our business and operations.

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

- any changes in the regulatory policies of the CAAC;
- the effects of competition on the demand for and price of our services;
- the development of the high-speed rail network in the PRC;
- the introduction of the Emissions Trading System of the European Union (the "Emissions Trading System");
- the availability of qualified flight personnel and airport facilities;
- any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of our borrowings are denominated;
- the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;
- changes in political, economic, legal and social conditions in China;
- fluctuations of interest rates and foreign exchange rates;
- our ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and
- general economic conditions in markets where our Company operates.

GLOSSARY OF TECHNICAL TERMS

Capacity measurements

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

Traffic measurements

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

Load factors

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

Yield and cost measurements

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

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected financial data from the consolidated income statements for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 and the selected financial data from the balance sheets as of December 31, 2007, 2008, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards, or IFRS, as adopted by the International Accounting Standards Board, or IASB, and audited by PricewaterhouseCoopers, an independent registered public accounting firm in Hong Kong. PricewaterhouseCoopers' reports in respect of the consolidated income statements for the years ended December 31, 2009, 2010 and 2011 and the consolidated balance sheets as of December 31, 2010 and 2011 and the related footnotes are included in this Annual Report.

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

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

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	RMB	RMB	RMB	RMB	RMB
	(in millions, except per share or per ADS data)				
Consolidated Income Statement Data (IFRS):					
Revenues	42,534	41,073	38,989	73,804	82,403
Other operating income	488	672	1,288	658	1,062
Operating expenses	(42,894)	(56,828)	(38,456)	(68,765)	(79,292)
Operating profit / (loss)	128	(15,083)	1,821	5,697	4,173
Finance income / (costs), net	162	(267)	(1,549)	(347)	561
Profit / (loss) before income tax	378	(15,256)	249	5,418	4,841
Profit / (loss) for the year attributable to the equity shareholders of the Company	379	(15,269)	169	4,958	4,576
Basic and fully diluted earnings / (loss) per share[1]	0.08	(3.14)	0.03	0.44	0.41
Basic and fully diluted earnings / (loss) per ADS	7.78	(313.72)	2.63	22.24	20.29

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	As of December 31,				
	2007	2008	2009	2010	2011
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Consolidated Balance Sheet Data (IFRS):					
Cash and cash equivalents	1,655	3,451	1,735	3,078	3,861
Net current liabilities	(26,098)	(43,458)	(28,648)	(27,184)	(29,679)
Non-current assets	57,949	62,652	64,988	91,254	101,031
Long term borrowings, including current portion	(14,675)	(15,628)	(16,928)	(27,373)	(30,321)
Obligations under finance leases, including current portion	(16,452)	(20,809)	(19,370)	(19,208)	(20,261)
Total share capital and reserves attributable to the equity shareholders of the Company	2,361	(13,097)	1,235	15,271	20,126
Non-current liabilities	(28,919)	(31,833)	(34,665)	(47,508)	(49,547)
Total assets less current liabilities	32,153	16,204	36,341	64,069	71,352

(1) The calculation of earnings/(loss) per share for 2007 and 2008 are based on the consolidated profit/(loss) attributable to the equity shareholders of the Company and 4,866,950,000 shares outstanding. The calculation of earnings per share for 2009 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 6,436,828,000 shares outstanding. The calculation of earnings per share for 2010 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 11,149,426,000 shares outstanding. The calculation of earnings per share for 2011 is based on consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 11,276,538,860 shares outstanding.

(2) The income statement and balance sheet data as of and for the years ended December 31, 2010 and 2011 include the operating results of Shanghai Airlines.

Exchange Rate Information

We present our historical consolidated financial statements in Renminbi. For the convenience of the reader, certain pricing information is presented in U.S. dollars and certain contractual and other amounts that are in Renminbi or Hong Kong dollars amounts include a U.S. dollar equivalent. Unless otherwise noted, all translations from RMB to U.S. dollars, from Hong Kong dollars to U.S. dollars, from U.S. dollars to RMB and from U.S. dollars to Hong Kong dollars in this Annual Report were made at the rate of RMB6.3009 to US$1.00 and HK$7.7663 to US$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Board on December 30, 2011. We make no representation that the Renminbi, Hong Kong dollar or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars, Hong Kong dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

On April 13, 2012, the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board were RMB6.3022=US$1.00 and HK$7.7592=US$1.00. The following table sets forth information concerning exchange rates between the RMB, Hong Kong dollar and the U.S. dollar for the periods indicated. The source of these rates is the Federal Reserve Statistical Release.

	RMB per US$1.00 (1)		**HK$ per US$1.00** (1)	
	High	Low	High	Low
November 2010	6.6892	6.6330	7.7656	7.7501
December 2010	6.6745	6.6000	7.7833	7.7612
January 2011	6.6364	6.5809	7.7978	7.7683
February 2011	6.5965	6.5520	7.7957	7.7823
March 2011	6.5743	6.5483	7.8012	7.7750
April 2011	6.5477	6.4900	7.7784	7.7669
May 2011	6.5073	6.4786	7.7855	7.7652
June 2011	6.4830	6.4628	7.7976	7.7767
July 2011	6.4720	6.4360	7.7964	7.7802
August 2011	6.4401	6.3778	7.8087	7.7876
September 2011	6.3975	6.3780	7.8040	7.7830
October 2011	6.3825	6.3534	7.7884	7.7634
November 2011	6.3839	6.3400	7.7957	7.7679
December 2011	6.3733	6.2939	7.7851	7.7663
January 2012	6.3330	6.2940	7.7674	7.7538
February 2012	6.3120	6.2935	7.7559	7.7532
March 2012	6.3323	6.2981	7.7685	7.7569
April 2012 (up to April 13, 2012)	6.3123	6.2975	7.7660	7.7592

The following table sets forth the average rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of the periods indicated. For all periods prior to January 1, 2009, the exchange rate refers to the noon buying rate as reported by the Federal Reserve Bank of New York. For periods beginning on or after January 1, 2009, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board.

	RMB per **US$1.00** [(1)]	HK$ per US$1.00
2007	7.5806	7.8008
2008	6.9193	7.7814
2009	6.8307	7.7513
2010	6.7603	7.7692
2011	6.4475	7.7793

Source: Federal Reserve Statistical Release

(1) Annual averages were calculated by using the average of the exchange rates on the last day of each month during the relevant year.

Selected Operating Data

The following table sets forth certain operating data of our Company for the five years ended December 31, 2011, which are not audited. All references in this Annual Report to our cargo operations, cargo statistics or cargo revenues include figures for cargo and mail.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
Selected Airline Operating Data:					
Capacity:					
ATK (millions)	12,085.9	11,642.2	12,505.5	17,887.4	18,662.5
ASK (millions)	77,717.2	75,964.3	84,456.4	119,450.9	127,890.8
AFTK (millions)	5,091.3	4,805.4	4,904.5	7,136.8	7152.3
Traffic:					
Revenue passenger-kilometers (millions)	57,182.6	53,785.3	60,942.1	93,152.8	100,895.1
Revenue tonne-kilometers (millions)	7,713.9	7,219.0	7,908.7	12,599.0	13,402.1
Revenue passenger tonne-kilometers (millions)	5,099.8	4,798.9	5,434.5	8,290.5	8,979.6

Revenue freight tonne-kilometers (millions)	2,614.1	2,420.1	2,474.2	4,308.5	4,420.6
Kilometers flown (millions)	478.1	467.0	515.2	743.89	793.9
Hours flown (thousands)	756.0	755.2	838.3	1,195.1	1,288.4
Number of passengers carried (thousands)	39,161.4	37,231.5	44,043.0	64,930.4	68,725.0
Weight of cargo carried (millions of kilograms)	940.1	889.5	943.9	1,464.9	1,443.1
Average distance flown (kilometers per passenger)	1,460.2	1,444.6	1,383.7	1,434.7	1,468.1
Load Factor:					
Overall load factor (%)	63.8	62.0	63.2	70.4	71.8
Passenger load factor (%)	73.6	70.8	72.2	78.0	78.9
Break-even load factor (based on ATK) (%)	67.7	90.7	66.0	67.5	74.4
Yield and Cost Statistics (RMB):					
Passenger yield (passenger revenue/ passenger-kilometers)	0.62	0.62	0.54	0.63	0.68
Cargo yield (cargo revenue/cargo tonne-kilometers)	2.10	2.21	1.67	1.95	1.83
Average yield (passenger and cargo revenue/ tonne-kilometers)	5.27	5.38	4.67	5.35	5.71
Unit cost (operating expenses/ATK)	3.57	4.88	3.08	3.61	4.25

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to the PRC

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

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

Foreign exchange regulations in the PRC may affect our ability to pay any dividends or to satisfy our foreign exchange liabilities.

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

Fluctuations in exchange rates may have a material adverse effect on our business, financial condition and results of operations.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the domestic and international economies, political conditions and the supply and demand of currency. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an appreciation in the value of the Renminbi against the U.S. dollar of approximately 7.0% in 2008. While there was no material appreciation of the value of Renminbi against the U.S. dollar in 2009, the value of the Renminbi against the U.S. dollar appreciated by approximately 3.0% in 2010 and by approximately 5.1% in 2011. In May 2007, the PRC government widened the daily trading band of the Renminbi against a basket of certain foreign currencies from 0.3% to 0.5%. In April 2012, the People's Bank of China ("PBOC") further widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi can appreciate or depreciate by 1.0% from the PBOC central parity rate, effective April 16, 2012. It is possible that the PRC government could adopt a more flexible currency policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency.

We operate our business in many countries and territories. We generate revenue in different currencies, and our foreign currency liabilities are typically much higher than our foreign currency assets. Our purchases and leases of aircraft are mainly priced and settled in currencies such as U.S. dollars. Fluctuations in exchange rates will affect our costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. As of December 31, 2011, our total interest-bearing liabilities denominated in foreign currencies converted to Renminbi amounted to RMB44,165 million, of which the U.S. dollar liabilities accounted for 97.1%. Therefore, in circumstances with large fluctuations in exchange rates, the exchange loss arising on the translation of foreign currency denominated liabilities will be greater, which in turn affects our profitability and development. We usually use hedging contracts for foreign currencies to reduce the risks in exchange rates for foreign currency revenue from ticket sales and expenses which are to be paid in foreign currencies. Foreign currency hedging mainly involves the sales of Japanese Yen or the purchase of U.S. dollars at fixed exchange rates. As of December 31, 2011, foreign currency hedging contracts held by us which are still open amounted to a notional amount of US$46 million (December 31, 2010: US$48 million), which will expire between 2012 and 2017.

Our Group recorded an increase in net exchange gains during the reporting period. As of December 31, 2010 and 2011, our Group's exchange gains were RMB1,075 million and RMB1,872 million, respectively. Due to the large value of existing net foreign currency liabilities denominated in U.S. dollars, the Group's results will be adversely affected if the Renminbi depreciates against the U.S. dollar or the rate of appreciation of the Renminbi against the U.S. dollar decreases in the future.

Our operations may be affected by rising inflation rates within the PRC.

Inflation rates within the PRC have been on a sharp uptrend in recent years. The PRC government has undertaken numerous monetary tightening measures, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down economic growth and control price rises. Increasing inflationary rates are due to many factors beyond our control, such as rising food prices, rising production and labor costs, high lending levels, PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. PRC inflation rates have been in a general downtrend after peaking in the middle of 2011, and increased to 3.6% as of March 2012. We cannot assure you that inflation rates will not continue to increase in the future. If inflation rates rise beyond our expectations, the costs of our business operations may become significantly higher than we have anticipated, and we may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increasing operating costs. As a result, further inflationary pressures within the PRC may have a material adverse effect on our business, financial condition and results of operations, as well as our liquidity and profitability.

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

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

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

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

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

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Auditors of companies that are registered with the US Securities and Exchange Commission and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the United States Public Company Accounting Oversight Board ("the "PCAOB") and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards in connection with their audits of financial statements filed with the SEC. Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditor's work related to our operations in China is not currently inspected by the PCAOB.

This lack of PCAOB inspections of audit work performed in China prevents the PCAOB from regularly evaluating audit work of any auditors that was performed in China including that performed by our auditors. As a result, investors are deprived of the full benefits of PCAOB inspections of auditors.

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

Risks Relating to the Aviation Industry

Our business is subject to extensive government regulation.

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

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

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

Our operations are dependent on Chinese aviation infrastructure, which is currently under development and may be insufficient.

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

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

Our operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for our flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. In particular, our airline revenue is generally higher in the second and third quarters than in the first and fourth quarters. As a result, our results tend to be volatile and subject to rapid and unexpected change.

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

The current CAAC policies limit foreign ownership in a PRC airline. Under these limits, non-PRC residents and Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a PRC airline company. As of December 31, 2011, approximately 30.99% of our total outstanding shares were held by non-PRC, Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). As a result, our access to funding in the international equity capital markets may be limited. This restriction may also limit the opportunities available to our Company to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. We cannot assure you that the CAAC will increase these limits in the near future or at all.

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

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

Fuel costs constitute a significant portion of our operating costs and, in 2011, accounted for approximately 36.9% of our total operating costs. We generally alleviate the pressure from the rise in operating costs arising from the increase in aviation fuel by imposing fuel surcharges which, however, are subject to government regulations. In order to control fuel costs, we also enter into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel during previous years. In 2011, we did not enter into any new crude oil option contracts, and those signed in past years were settled before December 31, 2011. We may not be able to successfully manage our exposure to changes in fuel prices through the use of these derivative transactions.

From 2010 to 2011, our fuel expenses increased by 35.3%, partially as a result of the expansion of our scale of operations and an increase of 27.4% in the average weighted price of jet fuel in 2011 compared to 2010. Jet fuel prices were volatile in early 2011, with the political instability and turmoil in certain Middle Eastern countries, as well as the natural disaster in Japan. As such, we cannot assure you that jet fuel prices will not further fluctuate in the future. Due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased jet fuel costs we may encounter in the future.

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

In recent years, regulatory authorities in China and other countries have issued a number of directives and other regulations to address, among other things, aircraft noise and aircraft engine emissions, the use and handling of hazardous materials, aircraft age and environmental contamination remedial clean-up measures. These requirements impose high fees, taxes and substantial ongoing compliance costs on airlines, particularly as new aircraft brought into service will have to meet the environmental requirements during their entire service life. In addition, the European Commission has indicated that the Emissions Trading System will apply to the airline industry from 2012, which will require airlines flying into, out of and within the European Union to pay for any emissions that exceed a defined cap. However, the Civil Aviation Ministry of China has issued a policy prohibiting domestic Chinese airlines from participating in the Emission Trading System.

We have significant expenditures with respect to environmental compliance, which may affect our operations and financial condition. For example, we implemented a low-carbon emissions scheme, through which over 90% of our planes are flying in accordance with the scheme, which aligns with our environmentally-friendly growth strategy to minimize the environmental impact of our operations. We expedited the application of new civil aviation technologies, continuously focused on the development of renewable resources and concentrated on the invention and application of new technologies and applications to achieve “greener” flying. We are working with China National Petroleum Corporation (“CNPC”) to conduct experimental research on bio-fuels, which is being developed as a possible alternative to kerosene jet fuel and could lead to reduced carbon dioxide emissions of 30%. However, these measures have resulted in significant costs and expenditures. We expect to continue to incur significant costs and expenditures on an ongoing basis to comply with environmental regulations, which could restrict our ability to modify or expand facilities or continue operations, or could require us to install additional costly pollution control equipment.

We operate in a highly competitive industry.

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

Risks Relating to the Company

We utilize fuel hedging arrangements which may result in losses.

As protection against increases in fuel prices, we from time to time hedge a portion of our future fuel requirements through various financial derivative instruments linked to certain fuel commodities to lock in fuel costs within a hedged price range. We have not entered into any new fuel hedging contracts since the beginning of 2009 due to a change in PRC government regulations which requires prior approval from the PRC government before we can enter into fuel hedging contracts. However, in October 2011, we have obtained approval from the PRC government to allow us to enter into overseas fuel hedging contracts. For the years ended December 31, 2010 and 2011, we hedged 28.2% and 17.0%, respectively, of our annual fuel consumption in these years. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant declines in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. In addition, where we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs. In 2011, we did not enter into any new crude oil option contracts, and all option contracts signed in past years were settled by December 31, 2011.

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

We have a substantial amount of debt, lease and other obligations, and will continue to have a substantial amount of debt, lease and other obligations in the future. During a period of time between the end of 2008 and April 2009, the amount of our total liabilities exceeded our total assets. In 2011, we added a total of 24 aircraft to our fleet, by purchase or finance lease (excluding operating lease) in 2011, including 17 Airbus A320 series aircraft, two Airbus A321 series aircraft, two Airbus A332 series aircraft, two Boeing 737-700 aircraft and one Boeing 737-800 aircraft. See the section headed "Item 4. Information on the Company — Property, Plant and Equipment — Fleet." As of December 31, 2011, our total liabilities were RMB92,934 million and our accumulated losses were RMB8,379.8 million. As of the same date, our current liabilities exceeded our current assets by RMB29,679 million. Our total bank borrowings amounted to RMB41,775 million and among which our short-term bank loans outstanding totaled RMB11,454 million as of December 31, 2011. Our substantial indebtedness and other obligations could materially adversely affect our business and operations, including requiring us to dedicate additional cash flow from operations to the payment of principal and interest on indebtedness, thereby reducing the funds available for operations, maintenance and service improvements and future business opportunities, increasing our vulnerability to economic recessions, reducing our flexibility in responding to changing business and economic conditions, placing us at a disadvantage when compared to competitors that have less debt, limiting our ability to arrange for additional financing for working capital, capital expenditures and other general corporate purposes, at all or on terms that are acceptable to us and limiting our ability to satisfy payment of our existing indebtedness and other obligations under our indebtedness.

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

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

We require significant amounts of external financing to meet our capital commitments for acquiring and upgrading aircraft and flight equipment and for other general corporate needs. As of December 31, 2011, we had total credit facilities of RMB54.5 billion from various banks, of which RMB35.5 billion are not utilized. We expect to roll over these bank facilities in future years. In addition, we generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained guarantees from Chinese banks in respect of payments under our foreign loan and capital lease obligations. However, we cannot assure you that we will be able to roll over our bank facilities or continue to obtain bank guarantees in the future. The unavailability of credit facilities or guarantees from Chinese banks or the increased cost of such guarantees may materially and adversely affect our ability to borrow additional funds or enter into international aircraft lease financings or other additional financing on acceptable terms. Although we have secured financing for our aircraft delivered in 2011, we are still in the process of obtaining financing for some aircraft we have scheduled for delivery in future years. In addition, if we are not able to arrange financing for our aircraft on order, we may seek to defer aircraft deliveries or use cash from operating or other sources to acquire the aircraft.

Our ability to obtain financing may also be impaired by our financial position, our leverage and our credit rating. In addition, factors beyond our control, such as recent global market and economic conditions, volatile oil prices, and the tightening of credit markets may result in a diminished availability of financing and increased volatility in credit and equity markets, which may materially adversely affect our ability to secure financing at reasonable costs or at all. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to expand our operations, purchase new aircraft, pursue business opportunities we believe to be desirable, withstand a continuing or future downturn in our business, or respond to increased competition or changing economic conditions may be impaired. We have and in the future will likely continue to have substantial debts. As a result, the interest cost associated with these debts might impair our future profitability and cause our earnings to be subject to a higher degree of volatility.

We are subject to interest rate fluctuation risk.

Our total interest-bearing liabilities (including long-term and short-term loans and finance leases payable) as of December 31, 2010 and 2011 were RMB57,774 million and RMB62,035 million, respectively, of which short-term liabilities accounted for 30.0% and 33.3%, respectively, and long-term liabilities accounted for 70.0% and 67.7%, respectively. A portion of the long-term interest-bearing liabilities carried variable interest rates. Both our variable and fixed rate obligations were affected by fluctuations in current market interest rates.

Our interest-bearing liabilities were mainly denominated in U.S. dollars and Renminbi. As of December 31, 2010 and 2011, our liabilities denominated in U.S. dollars accounted for 67.2% and 69.1%, respectively, of our total liabilities, while liabilities denominated in Renminbi accounted for 31.0% and 28.8%, respectively, of our total liabilities. Fluctuations in U.S. dollar and Renminbi interest rates have significantly affected our financing costs. A substantial majority of our borrowings denominated in Renminbi are linked to benchmark five-year lending rates published by the PBOC. From April 2006 to December 2007, the PBOC raised the benchmark five-year lending rate seven times from 6.39% to 7.83%. Beginning in September 2008, the PBOC decreased the benchmark five-year lending rate five times from 7.83% to 5.94% in December 2008. Since then, the PBOC has raised the benchmark five-year lending rate four times from 5.94% to 6.8% in April 2011. A substantial majority of our borrowings denominated in U.S. dollars are linked to floating LIBOR rates which decreased overall in 2010 and increased overall in 2011. The relevant lending rates may further increase in the future as a result of reasons beyond our control, and may adversely affect our business, prospects, cash flows, financial condition and results of operations. In addition, we expect to issue bonds and notes or enter into additional loan agreements and aircraft leases in the future to fund our operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates.

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

Most of the major airline companies in China are currently majority-owned either by the central government of China or by provincial or municipal governments in China. CEA Holding currently holds directly or indirectly 59.93% of our Company’s equity interests on behalf of the PRC government. As a result, CEA Holding could potentially elect the majority of our Board of Directors and otherwise be able to control us. CEA Holding also has sufficient voting control to effect transactions without the concurrence of our minority shareholders. The interests of the PRC government as the ultimate controlling person of our Company and most of the other major PRC airlines could conflict with the interests of our minority shareholders. Although the CAAC currently has a policy of equal treatment of all PRC airlines, we cannot assure you that the CAAC will not favor other PRC airlines over our Company.

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

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

The continued effects of the global recession could affect air travel.

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

Although international air travel generally recovered in 2010 due to the gradual global economic recovery, ongoing events such as the continued instability of European financial markets and sovereign debt crisis in the Euro Zone, as well as past events such as the political instability and turmoil in certain Middle Eastern countries and the natural disasters in Japan in early 2011 may continue to materially and adversely affect economic activity and financial markets, which would have an overall effect on international air travel, and would weaken demand for air travel to and from those areas.

Furthermore, the risk remains that the global economy, including the PRC economy, may continue to suffer the continued effects of the global recession and the PRC government may have to readjust its macroeconomic control measures accordingly, causing the growth or demand for our air transport services to slow down, which may negatively affect our business, financial condition and results of operations.

In addition, while the PRC government instituted certain initiatives in 2008 and 2009 in response to the slowdown in the PRC economy, a rapid increase in liquidity in the market as a result of fiscal stimulus measures resulted in the PRC government implementing a number of measures to control such increase, including raising interest rates, in the second quarter of 2010. These foregoing factors and any further declines in economic activity may reduce domestic or international demand and the speed at which domestic or international capacity grows may slow down significantly, which would have a material adverse effect on our revenues, results of operations and liquidity. For example, our cargo business is highly dependent upon servicing the logistics needs of the semi-conductor industry. A slowdown in this particular industry could adversely affect this segment of our business.

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

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

An accident or incident involving one of our aircraft could require repair or replacement of a damaged aircraft, its consequential temporary or permanent loss from service and/or significant liability to injured passengers and others. Although we believe that we currently maintain liability insurance in amounts and of the types generally consistent with industry practice, the amounts of such coverage may not be adequate to fully cover the costs related to the accident or incident, which could result in harm to our results of operations and financial condition. In addition, any aircraft accident or incident, even if fully insured, could cause a public perception that we are not as safe or reliable as other airlines, which would harm our competitive position and result in a decrease in our operating revenues. Moreover, a major accident or incident involving the aircraft of any of our competitors may cause demand for air travel in general to decrease, which would adversely affect our results of operations and financial condition.

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

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

We may not obtain or be allocated sufficient direct flights between mainland China and Taiwan, which may adversely affect our business and results of operations.

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. On June 12, 2011, the two sides agreed to increase the total number of flights to 558 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. The two sides also agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. Although, as of December 31, 2011 we operated approximately 106 flights per week and are one of several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.

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

The PRC government is aggressively implementing the expansion of its high-speed rail network, which will provide train services at a speed of up to 350km per hour connecting major cities such as Beijing, Shanghai, Wuhan, Qingdao, Guangzhou, Dalian and Hong Kong. The expansion of the coverage of this network and improvements in railway service quality, increased passenger capacity and stations located closer to urban centers than competing airports could enhance the relative competitiveness of the railway service and affect our market share on some of our key routes, in particular our routes of between 500km to 800km. Increased competition and pricing pressures from railway service may have a material adverse effect on our financial condition and results of operations.

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

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

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

We may from time to time expand our business through acquisitions of airline companies or airline-related businesses. For example, we entered into an agreement with Shanghai Airlines Co., Ltd. ("Shanghai Airlines") on July 10, 2009 to issue a maximum of 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all the existing issued shares of Shanghai Airlines. The acquisition price was RMB9,118 million, which was determined based on the quoted market price of our shares issued as of the date nearest to the acquisition date, with adjustments to reflect specific restrictions to certain shares that were issued. On January 28, 2010, we completed the exchange of 1,694,838,860 A Shares for all existing issued shares of Shanghai Airlines. In addition, on December 20, 2010, our subsidiary, China Cargo Airlines, entered into separate acquisition agreements with Great Wall Airlines and Shanghai Cargo Airlines to acquire each carrier's cargo business and related assets. China Cargo Airlines also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. These acquisitions and the acquisition of Great Wall Airlines have obtained the approval from CAAC, NDRC, and MOFCOM, and were completed on June 1, 2011. We are devoting significant resources to the integration of our operations in order to achieve the anticipated synergies and benefits of the absorption and acquisitions. See "Item 4. Information on the Company" for details.

Such acquisitions involve uncertainties and a number of risks, including:

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

- diverting significant management attention and resources from our other businesses;

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

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

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

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

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

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

We are required under relevant United States securities rules and regulations to disclose in the reports that we file or submit under the Exchange Act to the United States Securities and Exchange Commission, including our annual report on Form 20-F, a management report assessing the effectiveness of our internal control over financial reporting as of the end of the fiscal year. Our registered public accounting firm is also required to provide an attestation report on the effectiveness of our internal controls over financial reporting. Our management concluded that our internal controls over financial reporting were effective as of December 31, 2011. However, we may discover other deficiencies or material weaknesses in the course of our future evaluation of our internal controls over financial reporting and we may be unable to address and rectify such deficiencies in a timely manner. Any failure to maintain effective internal controls over financial reporting could lead to a decline in investor confidence in the reliability of our financial statements, thereby adversely affecting our business, operations, and reputation, including negatively affecting our market performance in the securities markets and decreasing potential opportunities to obtain financing in the capital markets.

During the year ended December 31, 2010, we completed the merger with Shanghai Airlines, which substantially increased our business scale. We have also adopted various measures for the internationalization of our business and to enhance our competitiveness in the international long-distance flight routes. Due to the differences in certain legal and market environments, we have encountered certain challenges during the course of developing our overseas business. We have also discovered that an individual overseas sales department had certain deficiencies in implementing its internal controls. We have already adopted and will continue to implement measures in order to enhance the internal control of our overseas offices and to ensure the continued development of our overseas business.

Our planned joint venture airline with Jetstar Airways (a wholly owned subsidiary of Qantas Airlines), Jetstar Hong Kong, may not proceed and if it does proceed, may not be successful.

On March 23, 2012, we entered into a binding memorandum of understanding (the “MOU”) with Jetstar Airways Pty Limited, a wholly owned subsidiary of Qantas Airlines (“Jetstar Airways”), to establish a joint venture (“Proposed JV Company”) that will consist of a new low-cost airline to be based in Hong Kong, Jetstar Hong Kong Airways (Jetstar Hong Kong). We and Jetstar Airways intend to make equal initial capital contributions of US$57.5 million each, and the Proposed JV Company will have a total initial capital of US$115 million. Depending on certain terms and conditions, we and Jetstar Airways will equally contribute capital amounts to increase the capital of the Proposed JV Company to US$198 million. Under the terms of the MOU, we and Jetstar Airways will have equal equity interests in the Proposed JV Company. The establishment of the Proposed JV Company is subject to the execution of certain agreements and the receipt of relevant regulatory and governmental approvals. As such, we cannot assure you that we and Jetstar Airways will proceed, or will be able to execute such agreements and obtain such approvals and form the Proposed JV Company within the timeframe contemplated by the MOU. In addition, the Proposed JV Company may not be able to secure the relevant licenses and approvals for its operations, or which are necessary for it to commence operations. The boards of directors of our Company and Jetstar Airways have not yet approved the establishment of the Proposed JV Company or the required related arrangements, and they may not do so.

Even if we and Jetstar Airways decide to proceed with the definitive agreements for the establishment of Jetstar Hong Kong, and before Jetstar Hong Kong can actually commence operations, it will need to:

- secure the relevant licenses, permits and approvals for its operations;
- establish suitable route networks, which involves securing the necessary airport time slots, landing rights and related approvals and clearances for routes and flight times;
- acquire the necessary aircraft fleet, through acquisitions or leases, to support its operations;
- comply with the relevant laws and regulations;
- identify and acquire suitable facilities and properties and secure land use rights; and
- hire competent and qualified management, flight crew, ground personnel and employees.

We cannot assure you that we will be able to complete these tasks in a timely manner, within the expected budget, or at all. Failure to do so could result in a material adverse effect on the business, financial condition and reputation of Jetstar Hong Kong and possibly our own. In addition, given the intended geographic coverage of Jetstar Hong Kong, overlapping coverage and competition on some routes may occur, which could affect our market share on certain routes. In addition, there is intense competition in the PRC from existing carriers, who generally service the same routes that are contemplated for Jetstar Hong Kong. We cannot assure you that Jetstar Hong Kong will be able to adequately compete against these existing carriers, which may have better brand recognition, financial resources, developed route networks, fares and product offerings.

Furthermore, we do not have experience operating in the low-cost market and may therefore be required to unduly rely on our joint venture partner, Jetstar Airways, for its expertise, experience and knowledge with respect to the daily operations of a low-cost carrier. The overall success of this venture is uncertain, and we cannot assure you that the Proposed JV Company will be profitable or successful or that its results of operations will not materially adversely affect our results of operations and financial condition.

We are currently involved in legal proceedings, the outcome of which is uncertain.

On November 21, 2004, a CRJ-200 Bombardier-supplied aircraft then owned and operated by China Eastern Air Yunnan Company, or CEA Yunnan, crashed shortly after leaving Baotou city in the Inner Mongolia Autonomous Region. All 53 people aboard died in the aircraft accident. In 2005, family members of the deceased sued, among other defendants, our Company in a U.S. court for compensation, the amount of which had not been determined. In July 2007, the Superior Court of the State of California ordered the action stayed on the grounds of *forum non conveniens* in order to permit proceedings in the PRC. In February 2009, the Court of Appeal of California dismissed the plaintiffs' appeal and affirmed the original order. On March 16, 2009, the plaintiffs sued the Company in the Beijing No. 2 Intermediate People's Court. Legal documents including summons, prosecution notifications and others have been served on the Company, although the trial has not yet begun, and there have been no further developments, as of the date of this Annual Report. We cannot assure you that the court will rule in favor of our Company with respect to the procedure or substance of the litigation, or what amount of damages may be assessed against us should the court find in favor of the plaintiffs.

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

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

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

The aviation industry as a whole has been beset with high-profile terrorist attacks, most notably on September 11, 2001 in the United States. The CAAC has also implemented increased security measures in relation to the potential threat of terrorist attacks. Terrorist attacks, even if not made directly towards us or on the airline industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated threat warnings or selective cancellation or redirection of flights) could materially and adversely affect us and the airline industry. In addition, potential or actual terrorist attacks may result in substantial flight disruption costs caused by grounding of fleet, significant increase of security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and RPK.

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

Our business is heavily dependent on our operations at our primary market airports in Shanghai, namely, Hongqiao International Airport and Pudong International Airport and our regional hub airports in Xi'an and Kunming. Each of these operations includes flights that gather and distribute traffic from markets in the geographic region around the primary market to other major cities. A significant interruption or disruption in service at one or more of our primary market airports could adversely impact our operations.

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

Adverse public health epidemics or pandemics could disrupt businesses and the national economies of China and other countries where we do business. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volumes and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have encountered incidents of the H5N1 strain of bird flu, or avian flu, many of which have resulted in fatalities. In addition, outbreaks of, and sporadic human infection with, influenza A (H1N1) in 2009, a highly contagious acute respiratory disease, were reported in Mexico and an increasing number of countries around the world, some cases resulting in fatalities. We are unable to predict the potential impact, if any, that the outbreak of influenza A (H1N1) or any other serious contagious disease, epidemic such as the recent outbreak of the deadly E.coli bacteria in Germany or another outbreak of SARS or avian flu may have on our business.

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

Impairment charges for property, plant and equipment may have a material adverse effect on our financial condition and results of operations.

In accordance with relevant accounting standards, we are required to test certain of our intangible assets for impairment on an annual basis, or more frequently if conditions indicate that an impairment may have occurred. In addition, we are required to test certain of our tangible assets for impairment if conditions indicate that an impairment may have occurred. Due to the high maintenance costs of these aircraft, in December 2011, we entered into an agreement with a third party to dispose of certain aircraft and related engines in the forthcoming 12 months. These aircraft and engines had an aggregate carrying value of RMB482 million (after the impairment loss charge), and have been classified as assets held for sale as of December 31, 2011. An impairment loss charge of approximately RMB612 million was recognized against these aircraft and engines by reference to the contracted selling price for the year ended December 31, 2011.

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

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

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

Item 4. Information on the Company

A.

History and Development of the Company

Our registered office is located at 66 Airport Street, Pudong International Airport, Shanghai, China, 201202. Our principal executive office is located at 2550 Hongqiao Road, Hongqiao International Airport, Shanghai, China, 200335, and our mailing address is Kong Gang San Lu, Number 92, Shanghai, 200335, China. The telephone number of our principal executive office is (86-21) 6268-6268 and the fax number for the Board Secretariat's office is (86-21) 6268-6116. We currently do not have an agent for service of process in the United States.

Our Company was established on April 14, 1995 under the laws of China as a company limited by shares in connection with the restructuring of our predecessor and our initial public offering. Our predecessor was one of the six original airlines established in 1988 as part of the decentralization of the airline industry in China undertaken in connection with China's overall economic reform efforts. Prior to 1988, the CAAC was responsible for all aspects of civil aviation in China, including the regulation and operation of China's airlines and airports. In connection with our initial public offering, our predecessor was restructured into two separate legal entities, our Company and EA Group. According to the restructuring arrangement, by operation of law, our Company succeeded to substantially all of the assets and liabilities relating to the airline business of our predecessor. EA Group succeeded to our predecessor's assets and liabilities that do not directly relate to the airline operations and do not compete with our businesses. Assets transferred to EA Group included our predecessor's equity interests in companies engaged in import and export, real estate, advertising, in-flight catering, tourism and certain other businesses. In connection with the restructuring, we entered into various agreements with EA Group and its subsidiaries for the provision of certain services to our Company. CEA Holding assumed the rights and liabilities of EA Group under these agreements after it was formed by merging EA Group, Yunnan Airlines Company and China Northwest Airlines Company in October 2002. See "Item 7. Major Shareholders and Related Party Transactions" for more details. In 2011, our Company's total revenue from core operations accounted for approximately 92.9% of CEA Holding's total revenue. The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of April 20, 2012:

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

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

In August 2002, our Company, jointly with Wuhan Municipal State-owned Assets Management Committee Office and two other independent third parties, established China Eastern Airlines Wuhan Limited, or CEA Wuhan, in which our Company held a 40% equity interest. CEA Wuhan's operating results were consolidated with ours from January 2006, when we obtained control of CEA Wuhan. In March 2006, we completed our acquisition of a 38% equity interest and a 18% equity interest in CEA Wuhan from Wuhan Municipal State-owned Assets Supervision and Administration Committee and Shanghai Junyao Aviation Investment Company Limited, respectively, for an aggregate consideration of approximately RMB418 million. As a result, our equity interest in CEA Wuhan has increased to 96%. CEA Wuhan primarily serves the market in Central China.

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

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

On March 14, 2006, we entered into an official sponsorship agreement with the Bureau of 2010 Expo Shanghai (the "Bureau"), which designated our Company as the exclusive airline passenger carrier in China to sponsor the 2010 Shanghai Expo. Pursuant to the agreement, we were entitled to a number of rights, including the use of the Bureau's logos and trademarks and the slogan "Better City, Better Life", and priority to purchase advertising space at the Expo site. We were also able to enjoy the privileges of being a market development participant of the World Expo.

On December 10, 2008, we entered into an A Share Subscription Agreement with CEA Holding for CEA Holding to subscribe for new A shares to be issued by our Company, and entered into an H Share Subscription Agreement with CES Global for CES Global to subscribe for new H shares to be issued by our Company. Both of these agreements were amended on December 29, 2008. Under the amended agreements, we agreed to issue 1,437,375,000 new A shares to CEA Holding and 1,437,375,000 new H shares to CES Global for an agreed-upon subscription price. On February 26, 2009, we received the approval for the non-public issuances of the A and H shares in a class meeting of A Share Shareholders, a class meeting of H Share Shareholders, and an extraordinary general meeting of shareholders. We completed the issuances of 1,437,375,000 new A Shares to CES Holding and 1,437,375,000 new H shares to CES Global on June 25, 2009 and June 26, 2009, respectively. See "Item 7.B. Related Party Transactions – Subscription Agreements with CEA Holding and CES Global."

On July 10, 2009, our Board approved an issuance of 1,350,000,000 new A shares of the Company to a limited number of specific investors, including CEA Holding, and the issuance of 490,000,000 new H shares of the Company to CES Global. The issuances of the A shares and H shares were completed on December 23, 2009 and December 10, 2009, respectively. See "Item 7.B. Related Party Transactions – Subscription Agreements with CEA Holding and CES Global."

On July 10, 2009, we entered into an absorption agreement with Shanghai Airlines in relation to the proposed acquisition of Shanghai Airlines. The proposed acquisition was approved in a shareholders meeting of our Company on October 9, 2009. On December 30, 2009, we received approval of our proposed acquisition of Shanghai Airlines from the China Securities Regulatory Commission, or the CSRC. On January 28, 2010, we issued 1,694,838,860 A shares to the shareholders of Shanghai Airlines in exchange for all existing issued shares of Shanghai Airlines. In 2010, we integrated the operations of Shanghai Airlines by undertaking and completing various post-acquisition administrative measures, such as the transfer and registration of properties and other assets, as well as the integration of each respective airline's frequent flyer mileage programs. As of the filing date, certain post-acquisition measures are still in progress. Because our Company and Shanghai Airlines were each airline carriers based in Shanghai with overlapping route operations, we believe that our acquisition of Shanghai Airlines will strengthen our market positioning in the growing air transportation market in China through cost synergies, the creation of economies of scale and improved optimization of route plans, flight schedules and route networks. In addition, we expect the improved operational efficiency and our increased competitiveness resulting from the combination of our Company and Shanghai Airlines will facilitate the promotion of Shanghai as a vital transportation hub in the international air transportation market.

On July 26, 2010, the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province, or Yunnan SASAC, entered into an agreement with our Company to jointly establish Eastern Airlines Yunnan Limited Corporation, or EA Yunnan. We will contribute 65% of the registered capital of EA Yunnan, with the remaining 35% contributed by Yunnan SASAC. EA Yunnan will focus on the provision of general civil aviation transportation and maintenance services. We believe that EA Yunnan will allow us to further enhance the existing provision of aviation services in Yunnan Province and surrounding regions in eastern China, and enhance our overall competitiveness and business development in the area.

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

On August 11, 2011, our wholly-owned subsidiary Eastern Air Overseas (Hong Kong) Corporation Limited issued offshore CNY-denominated bonds in an amount of CNY2.5 billion at 4% due 2014 and are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Our Company guaranteed the bond issue.

On March 23, 2012, we entered into a binding MOU with Jetstar Airways, a wholly owned subsidiary of Qantas, to establish a joint venture that will consist of a new low-cost airline to be based in Hong Kong, Jetstar Airways. We and Jetstar Airways intend to make equal initial capital contributions of US$57.5 million each, and the Proposed JV Company will have a total initial capital of US$115 million. Depending on certain terms and conditions, we and Jetstar Airways will equally contribute equal capital amounts to increase the capital of the Proposed JV Company to US$198 million. Under the terms of the MOU, we and Jetstar Airways will hold equal equity interests in the Proposed JV Company. The establishment of the Proposed JV Company is subject to the execution of certain agreements and the receipt of relevant regulatory and governmental approvals.

The table below sets forth details of our operating fleet since 2009 and planned additions for the years 2012 and 2013:

	No. of Aircraft Owned And under Finance Leases	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	No. of Aircraft Owned and under Finance Leases	No. of Aircraft under Operating Leases	Planned Additions	
	2009		2010		2011		2012	2013
A340-600	5	—	5	—	5	—	—	—
A340-300	5	—	5	—	5	—	—	—
A330-300	8	7	8	7	8	7	—	—
A330-200	2	3	2	3	4	3	6	8
A300-600R	7	—	7	—	7	—	—	—
A321	15	—	20	—	22	—	5	6
A320	57	26	71	24	88	24	19	8
A319	5	10	5	10	5	10	7	3
MD-90	9	—	—	—	—	—	—	—
B737-800	4	9	15	46	16	48	10	16
B737-700	24	15	33	19	35	19	2	5
B737-300	16	1	16	—	16	—	—	—
B757-200	—	—	5	5	5	5	—	—
B767	3	—	9	1	6	1	—	—
EMB-145LR	10	—	10	—	10	—	—	—
CRJ-200	5	—	8	2	8	—	—	—
Hawker800	—	—	1	—	1	—	—	—
A300-600R	3	—	3	—	3	—	—	—
B747	2	—	2	—	2	3	—	—
MD-11F	—	6	—	7	—	3	—	—
B757-200F	—	—	—	2	—	2	—	—
B777F	—	—	—	4	—	6		—
Total	180	77	225	130	246	131	49	46

B. Business Overview

Our Company was one of the three largest air carriers in China in terms of revenue-tonne-kilometers and number of passengers carried in 2011, and is an important domestic airline based in and serving Shanghai, which is considered to be the international financial center and the international shipping center of China. We serve a route network that covers 926 domestic and foreign destinations in 173 countries. We operate primarily from Shanghai's Hongqiao International Airport and Pudong International Airport, which collectively ranked the first and second largest airport in terms of cargo and mail traffic and passenger traffic (as measured in total freight weight and total passenger number in China in 2011), respectively. In 2011, we accounted for 52.4% and 39.0% of the market share at Hongqiao International Airport and Pudong International Airport, respectively, in terms of flight take-off and landing statistics, and accounted for 50.1% and 37.6% of the market share at Hongqiao International Airport and Pudong International Airport, respectively, in terms of passenger throughput. In addition, we were recognized as one of the "Most Innovative PRC Companies" by *Fortune Magazine* in 2011, and our "China Eastern Airlines" brand was awarded China's Famous Trademark by the State Administration for Industry and Commerce in 2011.

Compared to 2010, our traffic volume (as measured in RTKs) increased by 6.4%, from 12,599 million in 2010 to 13,402 million in 2011. Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) increased from 93,153 million in 2010 to 100,895 million in 2011, or 8.3%. Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) increased by 2.6%, from 4,308 million in 2010 to 4,421 million in 2011.

Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the three years ended December 31, 2011:

	Year Ended December 31,		
	2009	2010	2011
	(Millions of RMB)	(Millions of RMB)	(Millions of RMB)
Traffic revenues			
Passenger	31,436	54,625	60,383
Cargo and mail	3,017	5,810	5,482
Fuel surcharges	2,472	6,956	10,649
Total traffic revenues	36,925	67,391	76,514

Passenger Operations

The following table sets forth certain passenger operating statistics of our Company by route for each of the three years ended December 31, 2011:

	Year Ended December 31,		
	2009	2010	2011
Passenger Traffic (in RPKs) (millions)	60,942	93,153	100,895
Domestic	44,376	66,310	70,933
Regional (Hong Kong, Macau and Taiwan)	2,573	4,074	3,811
International	13,994	22,769	26,151
Passenger Capacity (in ASKs) (millions)	84,456	119,451	127,891
Domestic	59,235	83,421	88,013
Regional (Hong Kong, Macau and Taiwan)	3,835	5,576	5,193
International	21,386	30,453	34,685
Passenger Yield (RMB)	0.54	0.63	0.68
Domestic	0.54	0.64	0.69
Regional (Hong Kong, Macau and Taiwan)	0.63	0.78	0.81
International	0.51	0.60	0.63
Passenger Load Factor (%)	72.16	77.98	78.89
Domestic	74.91	79.49	80.59

Regional (Hong Kong, Macau and Taiwan)	67.08	73.05	73.39
International	65.43	74.77	75.40

The primary focus of our business is the provision of domestic, regional and international passenger airline services. In 2011, we operated approximately 11,216 scheduled flights per week (excluding charter flights), serving a route network that covers 926 domestic and foreign destinations in 173 countries.

Our domestic routes generated approximately 71.6% of our passenger revenues. Our most heavily traveled domestic routes generally link Shanghai to the large commercial and business centers of China, such as Beijing, Guangzhou and Shenzhen.

We also operated approximately 310 flights per week to and from Hong Kong, originating from Shanghai and other major cities in eastern, northern and western China on 17 flight routes. In addition, we operated approximately 17 routes between mainland China and Taiwan and two routes between China and Macau. Our regional routes accounted for approximately 4.5% of our passenger revenues in 2011. In April 2010, we entered into a strategic framework agreement with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan.

In 2011, we introduced several new international routes, including Shanghai-to-Rome, Shanghai-to-Hamburg, Shanghai-to-Hawaii (Honolulu), Shanghai-to-Dubai and Kunming-to-Male. We also re-started our Shanghai to London and Shanghai to Moscow routes. Revenues derived from our operations on international routes accounted for approximately 24.0% of our passenger revenues. Revenues derived from our operations to and from Japan accounted for approximately 6.8% of our passenger revenues and approximately 30.2% of our international passenger revenues in 2011.

Most of our international and regional flights and a substantial portion of our domestic flights either originate or terminate in Shanghai, the central hub of our route network. Our operations in Shanghai are conducted primarily at Hongqiao International Airport and Pudong International Airport. Most of our international flights to or from Shanghai originate or terminate at Pudong International Airport. Pudong International Airport is located approximately 30 kilometers from the central business district of Shanghai. We moved our operations at Hongqiao International Airport to the newly-constructed terminal two of Hongqiao International Airport on March 16, 2010.

We operate most of our flights through our three hubs located in eastern, northwestern and southwestern China, namely Shanghai, Xi'an and Kunming, respectively. With Shanghai as our main hub and Xi'an and Kunming as our regional hubs, we believe that we will benefit from the level of development and growth opportunities in eastern, northern and western China as a whole by providing direct services between various cities in those regions and between those regions and other major cities in China. We will also continue to develop our operations in Beijing and Guangzhou as our principal bases for northern China and southern China, respectively.

Cargo and Mail Operations

The following table sets forth certain cargo and mail operating statistics of our Company by route for each of the three years ended December 31, 2011:

	Year Ended December 31,		
	2009	2010	2011
Cargo and Mail Traffic (in RFTKs) (millions)	2,474	4,308	4,421
Domestic	733	980	934
Regional (Hong Kong, Macau and Taiwan)	85	155	148
International	1,656	3,173	3,338
Cargo and Mail Capacity (in AFTKs) (millions)	4,904	7,137	7,152
Domestic	1,769	2,031	1,987
Regional (Hong Kong, Macau and Taiwan)	214	313	312
International	2,921	4,792	4,853
Cargo and Mail Yield (RMB)	1.67	1.95	1.83
Domestic	1.13	1.28	1.44
Regional (Hong Kong, Macau and Taiwan)	4.13	4.54	4.49
International	1.78	2.04	1.82
Cargo and Mail Load Factor (%)	50.45	60.37	61.81
Domestic	41.43	48.27	47.01
Regional (Hong Kong, Macau and Taiwan)	39.74	49.59	47.60
International	56.69	66.20	68.78

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

The development of cargo operations is an important part of our Company's growth strategy. We have three MD-11F, two B757-200F, three B747-400ER and six B777F freight aircraft under operating leases for cargo and mail operations. We also have three A300-600R aircraft as well as two B747-400ER freighters for our cargo operations. In December 2010, China Cargo Airlines entered into a purchase agreement to acquire the relevant air cargo assets of Great Wall Airlines. China Cargo Airlines also purchased relevant business and assets from Shanghai International Freight Airlines Co., Ltd. Both acquisitions have obtained the requisite approvals from CAAC, NDRC, and MOC, and were completed on May 31, 2011. After the completion of these acquisitions and reorganizations, the New China Cargo Airlines, which is 51% owned by us, officially began its operation on May 1, 2011 and became the largest air cargo transportation company in the PRC in terms of cargo and mail capacity.

Our Operations by Geographical Segment

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

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

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

The following table sets forth our revenues by geographical segment for each of the three years ended December 31, 2011:

	2009 (millions of RMB)	2010 (millions of RMB)	2011 (millions of RMB)
Domestic	26,888	49,692	56,014
Regional (Hong Kong, Macau and Taiwan)	1,947	3,901	3,771
International	10,155	20,211	22,618
Total	38,990	73,804	82,403

Regulation

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

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

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

- whether to apply for any route;
- the allocation of aircraft among routes;

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

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

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

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

Domestic Route Rights

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

Regional Route Rights

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

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

Prior to 2003, there was no direct air link between mainland China and Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by the governments of mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. Mainland China and Taiwan agreed to increase flight destinations for air links between the two sides in mainland China to 33 airports in various PRC cities in 2010, while flight destinations in Taiwan continue to include eight airports in various cities in Taiwan. On June 12, 2011, the two sides agreed to increase the total number of flights to 558 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. The two sides also previously agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports.

International Route Rights

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

· availability of appropriate aircraft and flight personnel;

· safety record;

· on-time performance; and

· hub location.

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

Airfare Pricing Policy

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

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

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

The CAAC and the NDRC will regularly review the average operating costs of Chinese airlines, and may adjust the basic airfare for particular domestic routes which, in their view, is not at a reasonable level. The CAAC and NDRC issued a notice on April 13, 2010, effective on June 1, 2010, pursuant to which airlines may set first-class and business-class airfares in accordance with market prices, subject to relevant PRC laws. Such pricing must be filed 30 days before effectiveness with the CAAC and NDRC. We expect that, as this and other reforms continue into 2010, we will have more flexibility in operating our aviation business in the future. The promotion by Chinese regulators of a regulated and orderly market and a fair and positive competition mechanism will also provide a favorable environment for the growth of our business.

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

Acquisition of Aircraft and Spare Parts

Our Company is permitted to import aircraft, aircraft spare parts and other equipment for our own use from manufacturers through EAIEC, which is 55% owned by CEA Holding and 45% owned by our Company. This gives us freedom in rationalizing our maintenance practices by allowing us to maintain a relatively lower overall inventory level of aircraft parts and equipment than we otherwise would have to maintain. We are still required to obtain an approval from the NDRC for any import of aircraft. We generally pay a commission to EAIEC in connection with these imports.

Domestic Fuel Supply and Pricing

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

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

Safety

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

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

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

Security

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

Noise and Environmental Regulation

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

Chinese Airport Policy

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

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

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

Limitation on Foreign Ownership

The CAAC's present policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot individually or together hold a majority of our total outstanding shares. As of December 31, 2011, approximately 30.99% of our total outstanding shares were held by non-Chinese residents and Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). For PRC air transportation companies, pursuant to the Catalog of Industries for Guiding Foreign Investment, jointly promulgated by the NDRC and MOC on December 24, 2011, Chinese investors should be the controlling shareholders of a PRC air transportation company.

Competition

Domestic

Our Company competes against our domestic competitors primarily on the basis of safety, quality of service and frequency of scheduled flights. With the combination of our dominant position in Shanghai, our route network and our continued commitment to safety and service quality, we believe that our Company is well-positioned to compete against our domestic competitors in the growing airline industry in China. However, domestic competition from other Chinese airlines has been increasing recently as our competitors have increased capacity and expanded operations by adding new routes or additional flights to existing routes and acquiring other airlines. In addition, we have faced intense competition from entrants to our domestic markets as new investments into China's civil aviation industry have been made following the CAAC's relaxation of certain private-sector investment rules in July 2005. In December

2008, the CAAC announced ten measures to protect and encourage the domestic aviation industry, one of which provides that no new Chinese airlines will be licensed to incorporate and operate aviation businesses before 2010. In October 2010, the CAAC announced that the suspension of approvals for new Chinese airlines companies would continue for an indefinite time period. However, if the restriction is lifted in the future, we expect that competition from other Chinese airlines on our routes will further intensify.

There are currently over 30 Chinese airlines in mainland China, and our Company competes with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. Our Company, Air China Limited, or Air China, which is based in Beijing and listed on the Hong Kong Stock Exchange and the London Stock Exchange, and China Southern Airlines Company Limited, or China Southern, which is based in Guangzhou and listed on the Hong Kong Stock Exchange and the New York Stock Exchange, are the three leading air carriers in China, both in terms of revenue tonne-kilometers and size of operations. Each of these three airlines operates at least 500 routes and has a fleet of at least 350 jet aircraft. As of December 31, 2011, our Company, Air China and China Southern accounted for approximately 23.4%, 27.2% and 25.2%, respectively, of the total commercial air traffic (as measured in RTKs) handled by Chinese airlines.

Each of the domestic airlines competes against other airlines operating the same routes or flying indirect routes to the same destinations. Our principal competitors in the domestic market are China Southern and Air China, which also provide transportation services on some of our routes, principally routes originating from the major air transportation hubs in China, such as Shanghai, Guangzhou and Beijing. Some of these routes are among our most heavily traveled routes. Since most of the major domestic airlines operate routes from their respective hubs to Shanghai, our Company also competes against virtually all of the major domestic airlines on these routes. We also face competition from other domestic carriers in our air cargo business. However, we believe our absorption of Shanghai Airlines in early 2010 will strengthen our market positioning within the domestic market, particularly with respect to routes to and from Shanghai. In addition, we believe that the completion of the acquisition of the relevant air cargo assets of Shanghai Airlines, Great Wall Airlines and Shanghai International Freight Airlines Co., Ltd. has strengthened our competitive position in the domestic air cargo sector.

The PRC government is aggressively implementing the expansion of its domestic high-speed rail network, which will provide train services at a speed of up to 350km per hour connecting major cities such as Beijing, Shanghai, Wuhan, Qingdao, Guangzhou, Dalian and Hong Kong. The expansion of the coverage of this network and improvements in railway service quality, increased passenger capacity and stations located closer to urban centers than competing airports could enhance the relative competitiveness of the railway service and affect our market share on some of our key routes, in particular our routes of between 500km to 800km. The high-speed railway connecting Beijing and Shanghai commenced operations in July 2011, and has substantially affected our Beijing and Shanghai routes, as well as routes between Shanghai and Jinan, Beijing and Nanjing, Shanghai and Xuzhou, Shanghai and Tianjin and Beijing and Changzhou. Although the schedule of establishing a national high-speed railway network in 2012 has been postponed to 2014, we are inevitably facing increasing competition and pricing pressures from railway service. Therefore, we are taking active measures in decreasing the number of short-haul routes that overlap with such high-speed train routes, as well as adjusting certain sales price, facilitating “air-to-railway” transfers and allocating flight resources to alternative routes or medium-to-long-haul routes that have higher profitability. We cooperated with the Shanghai Railway Bureau to introduce the first air-rail transportation service offering, “Air-Rail Service”, which links passengers on international and regional air routes at Hongqiao International Airport to high-speed rail services that connect cities situated in the Yangtze River Delta. We will also maintain and strengthen our competitive advantages, including providing high quality services, increasing our pre-sale product promotions and developing our transfer services.

Regional

Our Hong Kong routes are highly competitive. The primary competitor on our Hong Kong routes is Hong Kong Dragon Airlines Limited, or Dragonair. We currently operate approximately 310 flights per week on 17 routes between Chinese cities and Hong Kong. Cathay Pacific Airways, or Cathay, and Dragonair compete with us on several of these routes, particularly the Shanghai-Hong Kong route. The Air Transportation Arrangement signed between the PRC government and the administrative government of Hong Kong in February 2000 provides for equal opportunity for airlines based in Hong Kong and mainland China. As a result, Dragonair has increased the frequency of its flights on several of our Hong Kong routes, resulting in intensified competition. Our Company also faces competition from Dragonair in our Hong Kong cargo operations. Cathay, which owns Dragonair, also cooperates with Air China and operates all passenger services of Cathay and Air China between Hong Kong and mainland China as joint venture routes under code-share and revenue and cost-pooling arrangements. This may further intensify the competition on the routes between Hong Kong and mainland China and impose greater competitive pressure on the other airline companies operating on these routes.

Prior to 2003, there was no direct air link between mainland China and Taiwan. As such, our operations on the regional routes benefited from traffic between Hong Kong and mainland China ultimately originating in Taiwan. Following a series of limited chartered flights operated between a number of mainland Chinese cities and Taiwan, from July 2008, 36 direct flights between Taiwan and mainland China were permitted on weekends from Fridays through Mondays on a regular basis. On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. On June 12, 2011, the two sides agreed to increase the total number of flights to 558 per week and to increase the total number of destination airports in mainland China and Taiwan to 50. The two sides also previously agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. Previously, a substantial number of our passengers travelled on our Hong Kong routes in order to connect flights to and/or from Taiwan. However, with the increasing availability of direct flights between mainland China and Taiwan, we may experience a significant decline in passenger traffic volumes on our Hong Kong routes and, as such, our revenues derived from operating such routes could be materially and adversely affected. We currently operate flights to Taipei from Shanghai, Nanjing, Xi'an, Kunming, Wuhan, Hefei, Nanchang, Ningbo, Taiyuan, Shijiazhuang and Qingdao. Through our absorption of Shanghai Airlines in 2010, we have added three additional direct routes to Taipei from Shanghai, Tianjin and Nanjing. In addition, we signed a strategic framework agreement in April 2010 with China Airlines of Taiwan to cooperate on routes to and from the PRC and Taiwan. However, as one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that our Company has obtained or will continue to be allocated sufficient Taiwan-mainland China routes or that the yields on these routes would be adequate to offset any material adverse effect on our revenues derived from operating our Hong Kong routes.

We previously competed with Air Macau on the Shanghai Pudong-Macau route but ceased to operate that route in October 2008. Air Macau's routes also provide an alternative to our Hong Kong routes for passengers travelling between Taiwan and mainland China.

International

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

We also face significant competition in our international cargo operations. Moreover, China and the United States entered into an air service agreement on July 24, 2004. Pursuant to this agreement, five additional airlines from each country are allowed to serve the China-U.S. market over the next few years. Another air transport agreement was signed between China and the United States on July 9, 2007 in order to increase travel and tourism and promote cultural, business and governmental exchanges between China and the United States, as well as to promote the ultimate objective of full liberalization of the bilateral air transport market. A trade services agreement was also signed between China and ASEAN countries in January 2007 and became effective in July 2007 to remove the restrictions on China’s entry into foreign freight markets.

Air China operates the largest number of international routes among all Chinese airlines. Beijing, the hub of Air China’s operations, is the destination for most international flights to China. We primarily compete with Air China, All Nippon Airways and Japan Airlines on our passenger routes to Japan. On our Korean routes, we compete with China Southern Airlines, Air China and Asiana Airlines and Korean Air. Our principal competitors on our flights to Southeast Asia include Thai Airways International, Singapore Airlines, Malaysia Airlines, Air Asia and Vietnam Airlines. On our passenger flights to the United States, our principal competitors include Delta Air Lines, United Airlines, American Airlines, Air China and Air Canada. On our European routes, our competitors include Air China, the Air France-KLM Group, Virgin Atlantic Airways, British Airways, Lufthansa German Airlines and Alitalia. We compete with Air China, China Southern Airlines and Qantas Airways on our Australian routes. We compete in the international market on the basis of price, service quality, frequency of scheduled flights and convenient sales arrangements. To improve our competitive position in international markets, we have established additional dedicated overseas sales offices, launched our own frequent flyer program, participated in “Asia Miles”, a popular frequent flyer program in Asia, and entered into code-sharing arrangements with a number of foreign airlines. We have also improved our online reservation and payment system.

In addition, in June 2011, we joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes, among others, international carriers such as Delta, China Southern, Alitalia, Air France and KLM. As of the date of this Annual Report, we have entered into frequent flyer and airport lounges agreements with 14 SkyTeam member airlines, and signed code-sharing agreements with 12 member airlines. Such agreements have been implemented on 95 destinations along 111 routes. See “ – Marketing and Sales – SkyTeam Alliance.”

Maintenance and Safety

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

Maintenance Capability

Through our cooperation with service providers and ventures with other companies, we currently perform regular repair and maintenance checks on all of our aircraft, which include D1 checks, C checks and other maintenance services for certain aircraft and other flight equipment. We also perform certain maintenance services for other Chinese airlines. Our primary aircraft maintenance base is at Hongqiao International Airport. In 2011, we commenced use of a newly constructed wide-body aviation hangar at Hongqiao International Airport, which can accommodate the maintenance of two of our wide-body aircraft and one narrow-body aircraft. We have additional maintenance bases at Pudong International Airport and some of our provincial hubs. Our maintenance staff in Shanghai supervises the operation of our regional maintenance facilities. We employed approximately 10,635 workers as maintenance and engineering personnel as of December 31, 2011. Some of our aircraft maintenance personnel have participated in the manufacturer training and support programs sponsored by Airbus and Boeing. In order to enhance our maintenance capabilities and to reduce our maintenance costs, we have, over the past few years, acquired additional maintenance equipment, tools and fixtures and other assets, such as airborne testing and aircraft data recovery and analysis equipment. Our avionics equipment is primarily maintained and repaired at our electronic maintenance equipment center located in Shanghai.

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

On November 6, 2007, we entered into a joint venture with United Technologies Corp., or UTC, to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd., or Pratt & Whitney, for the purpose of performing maintenance and repairs on aircraft engines. Our Company and UTC contributed US$20,145,000 and US$19,355,000, respectively, to the registered capital and hold 51% and 49%, respectively, of the equity interests in the joint venture. Moreover, after our absorption of Shanghai Airlines, we took over its 15% equity interest in Boeing Shanghai Aviation Services Co., Ltd. ("Boeing Shanghai"). As of December 31, 2011, Boeing (China) Investment Co., Ltd., Shanghai Airport (Group) Co., Ltd. and Boeing (Asia) Services Investment Limited hold 35.3%, 25.0% and 24.7%, respectively, of the remaining equity interest. Boeing Shanghai was founded in 2006 with a registered capital of US$85,000,000, and operates a maintenance hangar with the capacity to provide aircraft modification and maintenance services for two wide-body aircraft and one narrow-body aircraft and provides aircraft modification and maintenance services. In addition, we also hold 50% of Shanghai Airlines' previous equity interest in Shanghai Hute Aviation Technology Co., Ltd. ("Shanghai Hute"). The remaining equity interest is held by Sichuan Haite High-Tech Co., Ltd. Shanghai Hute was founded in 2003 with a registered capital of RMB30,000,000, and provides maintenance services for aviation equipment. The enhancement of our maintenance capabilities allows our Company to perform various maintenance operations in-house and continue to maintain lower spare parts inventory levels.

Safety

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

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

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

Cyber-security

With respect to our internal policies on cyber-security and internet safety, we have established an information safety management system and issued internal regulations on cyber-security, internal hardware and data safety systems to prevent loss of information due to cyber-security incidents, network outages or hardware incidents. We also plan to implement measures relating to the office environment information safety management and information system emergency management, information system access control, protection from any malicious software, management of information exchange tools and internal review and audit of information safety risks. Furthermore, we have entered into a strategic cooperation plan with the China Information Technology Security Evaluation Center by which their trained engineers evaluate our internal data security policies and cyber-security measures.

Fuel Supplies

Fuel costs represented approximately 36.9% of our operating expenses in 2011. We currently purchase a significant portion of the aviation fuel for our domestic routes from regional branches of the CAOSC. Fuel costs in China are affected by costs at domestic refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China. Fuel prices at six designated major airports in China, namely, the airports in Shanghai Pudong, Shanghai Hongqiao, Beijing, Guangzhou, Shenzhen and Tianjin, are set and adjusted once a month by the CAAC in accordance with prevailing fuel prices on the international market. For our international routes, we purchase a portion of our aviation fuel from foreign fuel suppliers located at the destinations of these routes, generally at international market prices.

In 2011, we consumed approximately 3.9 million tonnes of fuel, an increase of 6.2% from 2010. Our fuel expenses increased to RMB29,229 million in 2011, or an increase of 35.3%, as compared to 2010, as a result of the expansion of our operations and an increase of approximately 27.4% in the average weighted price of aviation fuel. In early 2011, fuel prices were volatile by the political instability and turmoil in certain Middle Eastern countries, as well as the natural disasters in Japan. We cannot assure you that fuel prices will not further fluctuate in the future. Further, due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased fuel costs we may encounter in the future.

Ground Facilities and Services

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

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

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

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

Marketing And Sales

Passenger Operations

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

We have also adopted customized strategies to market our services to particular travelers. We seek to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travelers, we focus on the frequency of flights between major business centers, convenient transit services and an extensive sales network. We launched our initial frequent flyer program in 1998 and joined the “Asia Miles” frequent flyer program in April 2001 to attract and retain travelers. In August 2003, we upgraded and rebranded our frequent flyer program to “Eastern Miles” and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels and restaurants that are our strategic partners. As a result of our continual efforts to develop the “Eastern Miles” program, the number of members of the frequent flyer program reached over 15 million in 2011. The special services hotline “95530” call center was established and came into operation in 2004.

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

In 2002, we upgraded our online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. In 2011, we expedited the construction of its overseas website. Currently, our global website covers North America, Australia, Europe and Asia Pacific. We continue to encourage our customers to book and purchase tickets via the Internet. We also maintain an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. The majority of our airline tickets are sold by domestic and international sales agents. Our tickets are sold throughout China through over 8,400 large and mid-sized sales agencies and travel agencies who have contractual relationships with us. Currently, our direct domestic ticket sales are handled primarily through employees based at our ticket counters located at airports such as Hongqiao International Airport and Pudong International Airport in Shanghai and in Anhui, Zhejiang, Shandong and Yunnan provinces, as well as at airports in Beijing, Chengdu, Fuzhou, Guangzhou, Hangzhou, Shenzhen, Xiamen and Yantai. Direct sales are also promoted through the availability of our telephone reservation and confirmation services. In addition to our domestic sales agents located in various cities in mainland China, Hong Kong, Macau and Taiwan, we maintain overseas sales or representative offices worldwide, including: (i) North American locations such as Honolulu, Los Angeles, New York and Vancouver; (ii) European and Middle Eastern locations such as Frankfurt, Hamburg London, Moscow, Paris and Rome; (iii) Asia-Pacific locations such as Seoul, Tokyo, Osaka, Nagoya, Fukuoka, Hiroshima, Sapporo, Niigata, Fukushima, Okinawa, Shizuoka, Kanazawa, Toyama, Nagasaki, Kagoshima, Okayama, Matsuyama, Singapore, Bangkok, Phuket, New Delhi, Kolkata, Kuala Lumpur, Ho Chi Minh, Bali, Dubai, Dhaka, Phnom Penh, Siem Reap, Vientiane, Yangon, Mandalay, Kathmandu and Maldives; and (iv) Australian locations such as Melbourne and Sydney. Among the 49 overseas sales or representative offices we maintained as of December 31, 2011, three offices, in Honolulu, Macau and Kathmandu, were established in 2011.

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

SkyTeam Alliance

We officially joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes international carriers such as, among others, Delta, China Southern, Alitalia, Air France and KLM, on June 21, 2011. As of the date of this Annual Report, we have entered into frequent flyer and airport lounges agreements with 14 SkyTeam member airlines, and signed code-sharing agreements with 12 member airlines. Such agreements have been implemented on 95 destinations along 111 routes.

By connecting to the route networks of other SkyTeam member airlines, we are able to offer its passengers seamless transit to 926 destinations in 173 countries under a single plane ticket with direct luggage services. Passengers may also enjoy the comfort of more than 490 VIP airport lounges of SkyTeam around the world. The entry of our Company as well as Shanghai Airlines into SkyTeam became effective on June 21, 2011. We believe this will be another benefit for our passengers, as they will be afforded additional flight options and frequent flyer mileage benefits through our SkyTeam alliance partners. In addition, our Company will benefit from possible codeshare and cooperative flight options, reduced costs and increased alliance-related marketing and promotion overseas.

Cargo Operations

We maintain a network of cargo sales agents domestically and internationally. We and our cooperative partners in our cargo operations have established domestic cargo sales offices in Beijing, Shanghai, Xiamen and other major transportation hubs in China, and international cargo sales offices in various locations in the U.S., Europe and the Asia-Pacific Region. In 2005, we established our northern China, southern China, southeastern China and overseas sales management centers to improve coordination among our sales offices. In addition, we work closely with two major international freight forwarders, DHL Global Forwarding Co., Ltd. (“DHL Global”) and E.I. Freight Forwarding Co., Ltd. (“EI”), to operate international cargo lines that originate from Shanghai. We have entered into global rewards agreements with DHL Global and EI, granting them certain incentive rewards for increases in freight volume. In addition, our subsidiary, China Cargo Airlines, intends to join SkyTeam Cargo, currently the world’s only airline cargo alliance, which will enable it to further expand its cargo network coverage, strengthen its transit capacity, provide better and more efficient ground services, while lowering operational costs.

General Aviation Services and Ancillary Activities

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

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

We also derive revenues from the provision of airport ground services for airlines operating to or from Hongqiao International Airport and Pudong International Airport, including aircraft cleaning, loading, unloading, storage and ground transportation of cargo and passenger luggage. At present we are the principal provider of these services at Hongqiao International Airport and Pudong International Airport. We provide these services to foreign carriers generally pursuant to one-year renewable contracts. In 2011, we generated net revenues of approximately RMB2,383 million from our airport ground services and cargo handling services.

We have other ancillary activities, including investments in other industrial projects and provision consulting services under Shanghai Eastern Airlines Investment Co., Ltd. Along with CEA Holding, we also established China Eastern Real Estate Investment Co., Ltd., which is primarily engaged in the real estate business, including the development and sales of commercial premises and property leasing in Shanghai, China.

Our general aviation services customers include provincial authorities in charge of agriculture, forestry and geology.

Patents and Trademarks

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

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

Insurance

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

C. Organizational Structure

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

D. Property, Plant And Equipment

Fleet

As of December 31, 2011, we operated a fleet of 377 aircraft, including 358 passenger aircraft, most with a seating capacity of over 100 seats, and 19 freighters. In 2011, we completed: (i) the purchase and finance-lease of a total of 24 aircraft, including 17 A320 aircraft, two A321 aircraft, two A332 aircraft, two B737-700 and one B737-800 aircraft; (ii) the operating- lease of four aircraft, including two B737-800 aircraft and two B777F aircraft; (iii) the disposal of nine aircraft, including surrender of the lease of four MD11F aircraft and two CRJ200 aircraft, and sale of three B767 aircraft; and (iv) the addition of three operating-leased B747 aircraft as a result of the purchase of assets of Great Wall Airlines by China Cargo Airlines. On October 17, 2011, we entered into the Aircraft Purchase Agreement and Aircraft Sale Agreement with Airbus SAS regarding the purchase of fifteen Airbus A330 series aircraft and the sale of five Airbus A340-300 aircraft. On the same day, we entered into the B787 Aircraft Termination Agreement and the Aircraft Purchase Agreement with Boeing Company regarding the termination of the purchase of 24 Boeing 787 series aircraft and the purchase of 45 Boeing 737NG series aircraft. For details, please refer to the announcements furnished to the SEC on Form 6-K dated October 17, 2011. We plan to continue to expand our scale in 2012 and to adjust and optimize our route network, thereby increasing our competitiveness and ability to create more attractive products and services to meet the needs of the market.

Existing Fleet

As of December 31, 2011, we had a fleet of 377 aircraft, including 358 passenger aircraft each with a seating capacity of over 100 seats and 19 freighters. The following table sets forth the details of our fleet as of December 31, 2011:

Total Number of Aircraft	Number of Aircraft Owned and under	Aircraft under Operating Lease	Average Number of Seats	**Average Age (in years)** (1)

		Finance Lease			
Jet Passenger Aircraft:					
Wide-body:					
A340-600	5	5	—	322	8.3
A340-300	5	5	—	289	15.5
A330-300	15	8	7	300	5.0
A330-200	7	4	3	264	4.0
A300-600R	7	7	—	271	17.3
B767	7	6	1	253	11.0
Narrow-body:					
A321	22	22	—	177	4.1
A320	112	88	24	158	6.7
A319	15	5	10	122	9.0
B737-800	64	16	48	164	4.6
B737-700	54	35	19	134	6.6
B757-200	10	5	5	184	6.4
B737-300	16	16	—	136	16.4
EMB 145LR	10	10	—	50	5.5
CRJ-200	8	8	—	50	10
Hawker800	1	1	—	8	N/A
Total Passenger Aircraft:	358	241	117	N/A	N/A
Cargo Aircraft:					
MD-11F	3	—	3	—	4.6
A300-600R	3	3	—	—	21.8
B747	5	2	3	—	4.8
B757-200F	2	—	2	—	5.7
B777F	6	—	6	—	1.5
Total Cargo Aircraft:	19	5	14	N/A	N/A
Total Fleet	377	246	131	N/A	N/A

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

Our daily average aircraft utilization rate was 9.8 hours in 2011, representing an increase of 0.1 hours from 9.7 in 2010. The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the three years ended December 31, 2011:

	2009	2010 (in hours)	2011
Wide-body:			
A340-600	11.8	11.9	12.0
A340-300	8.9	10.6	11.2
A330-300	9.4	9.4	9.4
A330-200	12.6	13.8	14
A300-600	7.5	8.5	8.1
B767-300	9.7	9.1	10.2
Narrow-body:			
MD-90	6.3	5.5	—
A321	9.8	9.6	9.5
A320	9.8	10	10.3
A319	9.0	9.5	9.2
B737-800	10.3	10.3	10.1
B737-700	10.2	9.7	9.9
B737-300	9.5	9.3	9.4
EMB 145	7.6	8.3	9.7
CRJ-200	7.3	6.6	6.7
B757-200	—	8.9	8.3
Hawker800	—	—	—
Total Passenger Aircraft Average		9.7	9.8

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

Our MD-11F, A300-600R and B747-400ER aircraft are used for our cargo operations and carry cargo to the United States, Europe and Japan.

Future Fleet Development

Our aircraft acquisition program focuses on aircraft that will modernize and rationalize our fleet to better meet the anticipated requirements of our route structure, taking into account aircraft size and fuel efficiency. Our aircraft acquisition program, however, is subject to the approval of the CAAC and the NDRC. The following table summarizes our currently anticipated net increase in the number of jet aircraft deliveries from 2012 to 2015 as of December 31, 2011:

	2012E	2013E	2014E	2015E	**Total**
Aircraft					
A319	7	3	4	2	16
A320	19	8	6	8	41
A321	5	6	6	6	23
A330-200	6	8	7	5	26
A330-300	—	—	1	2	3
B737-700	2	5	7	6	20
B737-800	10	16	16	29	71
Total	49	46	47	58	200

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

Fleet Financing Arrangements

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

Operating Facilities

Our Company (including branches) had operations on 30 parcels of land, occupying a total area of approximately 1.56 million square meters, as of December 31, 2011. Our major subsidiaries, including but not limited to Shanghai Airlines, China Cargo Airlines Co., Ltd., Eastern Jiangsu, CEA Wuhan, Eastern Logistics and Shanghai Eastern Flight Training Co., Ltd., owned and had operations on 33 parcels of land, occupying a total area of approximately 1.19 million square meters, as of December 31, 2011.

As of December 31, 2011, our Company (including branches) owned over 1,000 buildings with a total gross floor area of approximately 638,779 square meters. Our major subsidiaries owned approximately 200 buildings, with a total gross floor area of approximately 480,672 square meters, as of December 31, 2011.

Our Company and major subsidiaries have obtained the land use rights certificates and building ownership certificates for certain parcels of land and buildings, and are currently in the process of applying for the certificates with respect to the remaining parcels and buildings.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

Overview

Our primary business is the provision of domestic, regional (which includes Hong Kong, Macau and Taiwan) and international passenger and cargo airline services. Our overall capacity on an available tonne kilometer, or ATK, basis increased by 4.3%, from 17,887.4 ATKs in 2010 to 18,662.5 ATKs in 2011, and our passenger capacity on an available seat kilometer, or ASK, basis increased by 7.1%, 119,450.9 ASKs in 2010 to 127,890.8 ASKs in 2011. Total traffic on a revenue tonne kilometer, or RTK, basis increased by 6.4%, from 12,599.0 RTKs in 2010 to 13,402.1 RTKs in 2011.

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

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

Operating Segments

The Company presents segment information in a manner that is similar to the management's internal reporting. The Company is principally engaged in the operation of civil aviation, including the provision of passenger, cargo and other extended transportation services and are managed as a single business unit. The Company has one reportable operating segment, reported as "airline transportation operations". See Note 7 to our audited consolidated financial statements.

Acquisitions

We entered into an agreement with Shanghai Airlines on July 10, 2009 to issue a maximum of 1,694,838,860 A Shares to the shareholders of Shanghai Airlines in exchange for all existing issued shares of Shanghai Airlines. The acquisition price was RMB9,118 million, which was determined based on the quoted market price of our shares issued as of the date nearest to the acquisition date, with adjustments to reflect specific restrictions to certain shares that were issued. On January 28, 2010, we completed the exchange of 1,694,838,860 A Shares for all existing issued shares of Shanghai Airlines and Shanghai Airlines became a wholly-owned subsidiary of our Company.

A. Operating Results

The following tables set forth our summary income statement and balance sheet data as of and for the years indicated:

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	RMB	RMB	RMB	RMB	RMB
	(in millions, except per share data)				

Summary Income Statement Data (IFRS)					
Revenues	42,534	41,073	38,989	73,804	82,403
Other operating income	488	672	1,288	658	1,062
Operating expenses	(42,894)	(56,828)	(38,456)	(68,765)	(79,292)
Operating profit/(loss)	128	(15,083)	1,821	5,697	4,173
Finance (costs)/income, net	162	(267)	(1,549)	(347)	561
Profit/(loss) before income tax	378	(15,256)	249	5,418	4,841
Profit/(loss) for the year attributable to the equity shareholders of the Company	379	(15,269)	169	4,958	4,578
Earnings/(loss) per share attributable to the equity shareholders of the Company (1)	0.08	(3.14)	0.03	0.44	0.41

	As of December 31,				
	2007	2008	2009	2010	2011
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Summary Balance Sheet Data (IFRS)					
Cash and cash equivalents	1,655	3,451	1,735	3,078	3,861
Net current liabilities	(26,098)	(43,458)	(28,648)	(27,184)	(29,679)
Non-current assets	57,949	62,652	64,988	91,254	101,031
Long term borrowings, including current portion	(14,675)	(15,628)	(16,928)	(27,373)	(30,321)
Obligations under finance leases, including current portion	(16,452)	(20,809)	(19,370)	(19,208)	(20,261)
Total share capital and reserves attributable to the equity shareholders of the Company	2,361	(13,097)	1,235	15,271	20,126
Non-current liabilities	(28,919)	(31,833)	(34,665)	(47,508)	(49,547)
Total assets less current liabilities	32,153	16,204	36,341	64,069	71,352

(1) The calculation of earnings/(loss) per share for 2007 and 2008 are based on the consolidated profit/(loss) attributable to the equity shareholders of the Company and 4,866,950,000 shares in issue. The calculation of earnings per share for 2009 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of shares of 6,436,828,000; The calculation of earnings per share for 2010 is based on the consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 11,149,426,000 ordinary shares outstanding. The calculation of earnings per share for 2011 is based on consolidated profit attributable to the equity shareholders of the Company divided by the weighted average number of 11,276,538,860 ordinary shares outstanding.

2011 Compared to 2010

Revenues

Our revenues increased by 11.7%, from RMB73,804 million in 2010 to RMB82,403 million in 2011 (net of the applicable PRC business tax). Revenues increased in our passenger business operation, primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights, while revenue decreased in our cargo and mail business operation, primarily due to the general slowdown of the global economy that affected cargo volumes.

In 2011, we transported a total of 68,725 million passengers, representing an increase of 5.8%, from 64,930 million passengers in 2010. Our total passenger traffic (as measured in RPKs) increased by 8.3%, from 93,153 million passenger-kilometers in 2010 to 100,895 million passenger-kilometers in 2011 and our total cargo and mail traffic (as measured in RFTKs) increased by 2.6%, from 4,308 million freight tonne-kilometers in 2010 to 4,421 million freight tonne-kilometers in 2011. Our average yield for our passenger operations increased by 7.9%, from RMB0.63 per passenger-kilometer in 2010 to RMB0.68 per passenger-kilometer in 2011 primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights.

Our average yield for our cargo and mail operations decreased by 6.2%, from RMB1.95per tonne-kilometer in 2010 to RMB1.83 per tonne-kilometer in 2011, primarily due to the general slowdown of the global economy that affected cargo volumes.

The following chart sets forth our revenue breakdown for 2010 and 2011:

	2011 vs. 2010	
	Increase	% Increase

	Year Ended December 31,			
	2011	2010	(Decrease)	(Decrease)
	(in millions of RMB)			
Traffic revenues[1]	76,514	67,391	9,123	13.5
Passenger	68,434	58,968	9,466	16.1
Passenger revenue excluding fuel surcharges	60,383	54,625	5,758	10.5
Fuel surcharges	8,051	4,343	3,708	85.4
Cargo and mail	8,080	8,423	(343)	(4.1)
Cargo and mail revenue excluding fuel surcharges	5,482	5,810	(328)	(5.6)
Fuel surcharges	2,598	2,613	(15)	(0.6)
Others [2]	5,794	6,413	(619)	(10.4)
Total Operating Revenue	82,403	73,804	8,599	11.7

(1) Pursuant to relevant tax rules and regulations in the PRC, the major elements of the Company's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to business tax levied at rates of 3% or 5%. Pursuant to the notice of exemption of business tax on the provision of international transportation services (Cai Shui [2010] No. 8), jointly issued by the Ministry of Finance and the State Tax Bureau, our revenues from the provision of international transportation services were exempt from business tax as of 1 January 2010. The business tax incurred and set off against the above revenues for the year ended December 31, 2011 amounted to approximately RMB1,803 million (2010: RMB1,463 million).

(2) Includes ground service income, cargo handling income, commission income and others.

Passenger revenues

Our passenger traffic revenues increased by RMB9,466 million, or 16.1%, from RMB58,968 million in 2010 to RMB68,434 million in 2011. The increase was primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 71.6% of our total passenger traffic revenues in 2011, increased by 16.2%, from RMB42,143 million in 2010 to RMB48,963 million in 2011. The increase was primarily due to increased ticket prices, increased flight capacity on domestic routes and steady demand from the continued growth of the PRC economy. Compared to 2010, our domestic passenger traffic (as measured in RPKs) increased by 7.0%, from 66,310 million in 2010 to 70,933 million in 2011. The number of passengers carried on domestic routes increased by 6.0%, from 55.5 million in 2010 to 58.8 million in 2011. Our passenger-kilometers yield for domestic routes increased from RMB0.64 per passenger-kilometer in 2010 to RMB0.69 per passenger-kilometer in 2011.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for 4.5% of our total passenger traffic revenues in 2011, decreased by 3.1%, from RMB3,176 million in 2010 to RMB3,078 million in 2011. The decrease was primarily due to reduced flight capacity on our Hong Kong routes resulting from reduced flights to and from Hong Kong, as well as increased competition on our Hong Kong routes, which led to a decrease of 6.5%, from 4,074 million in 2010 to 3,811 million in 2011, in our regional passenger traffic (as measured in RPKs). The number of passengers carried on Hong Kong, Macau and Taiwan routes decreased by 5.5%, from 2.9 million in 2010 to 2.7 million in 2011. Our passenger-kilometers yield for regional routes increased from RMB0.78 per passenger-kilometer in 2010 to RMB0.81 per passenger-kilometer in 2011.

International passenger traffic revenues, which accounted for 24.0% of our total passenger traffic revenues in 2011, increased by 20.1%, from RMB13,650 million in 2010 to RMB16,393 million in 2011. The increase was primarily due to increased international passenger demand, increased aircraft utilization rates and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by 14.9% in 2011, from 22,769 million in 2010 to 26,151 million in 2011. The number of passengers carried on international routes increased by 9.8%, from 6.6 million in 2010 to 7.2 million in 2011. Our passenger-kilometers yield for international routes increased from RMB0.60 per passenger-kilometer in 2010 to RMB0.63 per passenger-kilometer in 2011.

Cargo and mail revenues

Our cargo and mail traffic revenues decreased by 4.1%, from RMB8,423 million in 2010 to RMB8,080 million in 2011, which accounted for 10.6% of our total traffic revenues in 2011. Revenue from cargo and mail traffic via belly-hold cargo space on the Company's passenger aircraft was RMB2,998 million, which accounted for 37.1% of total freight revenue and 3.9% of total traffic revenue in 2011. Cargo and mail yield decreased from RMB1.95 in 2010 to RMB1.83 in 2011 per cargo tonne-kilometer, or 6.2% compared to the same period in 2010, primarily as a result of the general slowdown of the global economy that affected cargo volumes.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for 16.7% of our total cargo and mail traffic revenues in 2011, increased by 7.4%, from RMB1,257 million in 2010 to RMB1,350 million in 2011. This increase was primarily due to the continued economic growth in

China which resulted in increased cargo and mail volume and demand. Our freight tonne-kilometers yield for domestic routes increased from RMB1.28 per tonne-kilometer in 2010 to RMB1.44 per tonne-kilometer in 2011.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for 8.2% of our total cargo and mail traffic revenues in 2011, decreased by 5.7%, from RMB706 million in 2010 to RMB666 million in 2011. This decrease was primarily due to decreased demand in the regional cargo and mail freight market as a result of the general slowdown of the regional freight market. Our freight tonne-kilometers yield for regional routes decreased from RMB4.54 per tonne-kilometer to RMB4.49 per tonne-kilometer.

International cargo and mail traffic revenues, which accounted for 75.1% of our total cargo and mail traffic revenues in 2011, decreased by 6.1%, from RMB6,460 million in 2010 to RMB6,064 million in 2011, due to reduced demand in the international freight market as a result of decreased global economic activity . Our prices for cargo and mail transportation on international routes also increased as our freight tonne-kilometers yield for international routes decreased from RMB2.04 per tonne-kilometer in 2010 to RMB1.82 per tonne-kilometer in 2011.

Other revenues

We also generated revenues from other services, including airport ground services, cargo handling services and ticket handling services. These services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao International Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao International Airport and Pudong International Airport. Our total other revenues decreased by 10.4%, from RMB6,413 million in 2010 to RMB5,749 million in 2011, as a result of decreased cargo handling income.

Operating Expenses

The following chart sets forth a breakdown of our operating expenses for the years 2010 and 2011:

	Year Ended December 31,		2011 vs. 2010	
	2011	2010	Increase (decrease)	% increase (decrease)
	(in millions of RMB)			
Operating Expenses:				
Aircraft fuel expenses	29,229	21,606	7,623	35.3 %
Gain on fair value movements of derivatives financial instruments	(87)	(833)	746	(89.6)%
Takeoff and landing charges	8,350	7,455	895	12.0 %
Depreciation and amortization	6,966	6,758	208	3.7 %
Wages, salaries and benefits	8,665	8,941	(276)	(3.1)%
Office, administration and others	8,854	8,588	266	3.1 %
Aircraft maintenance	4,406	4,614	(208)	(4.51)%
Aircraft operating lease expenses	4,128	3,976	153	3.9 %
Impairment losses for assets	638	405	233	57.5 %
Selling and marketing expenses	3,740	3,324	416	12.5 %
Other	4,403	3,931	472	12.0 %
Total Operating Expense	79,292	68,765	10,527	15.3 %

Our total operating expenses increased by 15.3%, from RMB68,765 million in 2010 to RMB79,292 million in 2011 primarily due to the substantial increase of the aircraft fuel expenses. Our total operating expenses as a percentage of our revenues increased from 93.2% in 2010 to 96.2% in 2011.

Aircraft fuel expenses increased by 35.3%, from RMB21,606 million in 2010 to RMB29,229 million in 2011. The increase was primarily due to our business expansion and the increase of average aircraft fuel price by 27.4% compared with that of 2010. In 2011, we consumed a total of approximately 3.9 million tonnes of aviation fuel, representing an increase of 6.2% compared to 2010. Aircraft fuel expenses accounted for 31.4% of our total operating expenses in 2011, as compared to 36.9% in 2010.

Changes in fair value of financial derivatives decreased from a gain of RMB833 million in 2010 to a gain of RMB87 million in 2011. The difference was mainly due to the decrease in gains arising from fair value movement of crude oil option contracts, which was resulted from a decrease in the notional amount of unsettled crude oil option. In 2011, the net gain on change in fair value of crude oil option contracts (inclusive of cash outflow upon settlement) was approximately RMB67 million. In 2011, the fair value movements of financial derivatives charged to the income statement accounted for 0.1% of our total operating expenses.

Take-off and landing charges, which accounted for 10.5% of our total operating expenses in 2011, increased by 12.0%, from RMB7,455 million in 2010 to RMB8,350 million in 2011, primarily due to an increase in scheduled flights.

Depreciation and amortization increased by 3.1%, from RMB6,758 in 2010 to RMB6,966 million in 2011, primarily due to increased number of aircraft in our fleet and increased aircraft utilization rates, which resulted in the corresponding costs.

Wages, salaries and benefits, which accounted for 10.9% of our total operating expenses in 2011, decreased by 3.1%, from RMB8,941 million in 2010 to RMB8,665 million in 2011, primarily due to reduced staff bonuses resulting from reduced operating profits in 2011, as well as various cost-saving measures that we implemented.

Office, administration and other expenses increased by 3.1%, from RMB8,588 million in 2010 to RMB8,854 million in 2011, primarily due to the expansion of our overall business operations.

Aircraft maintenance expenses, which accounted for 5.6% of our total operating expenses in 2011, decreased by 4.5%, from RMB4,614 million in 2010 to RMB4,406 million in 2011, primarily due to the reduced number of aircraft and engines that required scheduled major overhaul services.

Aircraft operating lease expenses increased by 3.8%, from RMB3,976 million in 2010 to RMB4,128 million in 2011, primarily due to an increase in the number of aircraft that we operate under operating leases.

Impairment losses for assets increased by 57.5%, from a loss of RMB405 million in 2010 to a loss of RMB638 million in 2011, primarily due to impairment provisions made for certain aircraft to be disposed of in 2012, which referenced the contracted selling price less costs to sell. We have planned to dispose of these aircraft in an effort to increase the operational efficiency of, and reduce the related maintenance fees for, our fleet.

Selling and marketing expenses, which accounted for 4.7% of our total operating expenses in 2011, increased by 12.5%, from RMB3,324 million in 2010 to RMB3,740 million in 2011, primarily a result of increases in ticketing system service fees and agency handling fees due to increases in traffic revenue.

Other Operating Income

Our other operating income and other gains were primarily generated from government subsidies and gains on disposal of aircraft and relevant assets. The total amount of our other operating income and other gains increased from RMB658 million in 2010 to RMB1,061 million in 2011, primarily due to an increase in government subsidy income in 2011. Other government subsidies represent subsidies granted to us by the PRC government and local government as well as other subsidies granted by various local municipalities to encourage our Company to operate certain routes to cities where these municipalities are located.

Net Finance Costs

Our finance costs (net of finance income) decreased by 2.6%, from RMB1,502 million in 2010 to RMB1,463 million in 2011, primarily due to improvement in our capital structure and a reduction on the interest rates of our foreign currency borrowings. Approximately 69.1% of our indebtedness is U.S. dollar denominated borrowings, which are generally tied to LIBOR rates. In 2011, our finance income was RMB2,024 million, primarily due to the increase in exchange gain resulting from the appreciation of the Renminbi against the U.S. dollar.

Profit / (Loss) attributable to the equity shareholders of the Company

As a result of the foregoing, the net profit attributable to the equity shareholders of the Company increased to RMB4,576 million in 2011, representing a 7.7% decrease as compared to a net profit of RMB4,958 million in 2010.

Fixed Assets

Our Company had approximately RMB73,758 million of fixed assets and construction in progress as of December 31, 2011, including, among other assets, aircraft, engines and flight equipment, representing a 7.2% increase from RMB68,822 million in 2010.

2010 Compared to 2009

Revenues

Our revenues increased by 89.3%, from RMB38,989 million in 2009 to RMB73,804 million in 2010 (net of the applicable PRC business tax). Revenues increased in each of our passenger and cargo and mail business operations, primarily due to the robust demand for aviation services as a result of the rapid growth of the Chinese economy, the substantial increase in our scale of operations after the absorption of Shanghai Airlines, as well as the increase in passenger travel created by the Shanghai World Expo and the enhancement of our marketing capabilities.

In 2010, we transported a total of 64.9 million passengers, representing an increase of 47.4%, from 44.0 million passengers in 2009. Our total passenger traffic (as measured in RPKs) increased by 52.9%, from 60,942 million passenger-kilometers in 2009 to 93,153 million passenger-kilometers in 2010 and our total cargo and mail traffic (as measured in RFTKs) increased by 74.14%, from 2,474 million freight tonne-kilometers in 2009 to 4,308 million freight tonne-kilometers in 2010. Our average yield for our passenger operations increased by 16.7%, from RMB0.54 per passenger-kilometer in 2009 to RMB0.63 per passenger-kilometer in 2010 primarily due to increased passenger travel on our various segments.

Our average yield for our cargo and mail operations increased by 16.8% from RMB1.7 per tonne-kilometer in 2009 to RMB2.0 per tonne-kilometer in 2010, primarily due to increased import/export activity resulting in increased demand for air cargo and mail services.

The following chart sets forth our revenue breakdown for the years 2009 and 2010:

	Year Ended December 31,		2010 vs. 2009	
	2010	2009	Increase (decrease)	% increase (decrease)
	(in millions of RMB)			
Traffic revenues[1]	67,391	36,925	30,466	82.5 %
Passenger	58,968	32,800	26,168	79.8 %
Passenger revenue excluding fuel surcharges	54,625	31,436	23,189	73.8 %
Fuel surcharges	4,343	1,364	2,979	218.4 %
Cargo and mail	8,423	4,125	4,298	104.2 %
Cargo and mail revenue excluding fuel surcharges	5,810	3,017	2,793	92.6 %
Fuel surcharges	2,613	1,108	1,505	135.8 %
Others [2]	6,413	2,065	4,348	210.6 %

Total Operating Revenue	73,804	38,990	34,814	89.3	%

(1) Pursuant to relevant tax rules and regulations in the PRC, the major elements of the Company's traffic revenues, commission income, ground service income, cargo handling income and other revenues are subject to business tax levied at rates of 3% or 5%. Pursuant to the notice of exemption of business tax on the provision of international transportation services (Cai Shui [2010] No. 8), jointly issued by Ministry of Finance and the State Tax Bureau, our Group's revenues from the provision of international transportation services were exempt from business tax as of 1 January 2010. The business tax incurred and set off against the above Company's revenues for the year ended December 31, 2010 amounted to approximately RMB1,463 million (2009: RMB1,019 million).

(2) Includes ground service income, cargo handling income, commission income and others.

Passenger revenues

Our passenger traffic revenues increased by RMB26,168 million, or 79.8%, from RMB32,800 million in 2009 to RMB58,968 million in 2010. The increase was primarily due to the robust demand in the domestic and international aviation markets, increased flight capacity and marketing activities launched by the Company to closely reflect market demand, and the increase in passenger load factor, domestic routes and ticket price levels as a result of the absorption of Shanghai Airlines. Passenger traffic revenues accounted for 79.9% of our total traffic revenues in 2010.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 71.5% of our total passenger traffic revenues in 2010, increased by 75.3%, from RMB24,038 million in 2009 to RMB42,143 million in 2010. The increase was mainly due to robust demand for domestic flights resulting from the continued growth of the PRC economy, enhanced marketing activities launched by our Company to reflect market demand and an increase in passenger load factor, domestic routes and ticket price levels as a result of the absorption of Shanghai Airlines . Compared to 2009, our domestic passenger traffic (as measured in RPKs) increased by 49.4%, from 44,376 million in 2009 to 66,310 million in 2010. The number of passengers carried on domestic routes increased by 46.0%, from 38.0 million in 2009 to 55.5 million in 2010. Our passenger-kilometers yield for domestic routes increased from RMB0.54 per passenger-kilometer in 2009 to RMB0.64 per passenger-kilometer in 2010.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for 5.4% of our total passenger traffic revenues in 2010, increased by 94.8%, from RMB1,630 million in 2009 to RMB3,176 million in 2010. The increase was primarily due to the robust demand for regional flights, which led to increased passenger traffic volume on our regional flights, as well as an increase in flight capacity and routes , which led to an increase of 58.3%, from 2,573 million in 2009 to 4,074 million in 2010, in our regional passenger traffic (as measured in RPKs). The number of passengers carried on Hong Kong, Macau and Taiwan routes increased by 52.4%, from 1.9 million in 2009 to 2.9 million in 2010. Our passenger-kilometers yield for regional routes increased from RMB0.63 per passenger-kilometer in 2009 to RMB0.78 per passenger-kilometer in 2010.

International passenger traffic revenues, which accounted for 23.2% of our total passenger traffic revenues in 2010, increased by 91.4%, from RMB7,133 million in 2009 to RMB13,650 million in 2010. The increase was primarily due to the increased demand for international aviation services, which led to increased passenger traffic volume on our international flights, as well as the ancillary effects of the Shanghai World Expo, which increased international travel demand overseas to Shanghai.

Our international passenger traffic (as measured in RPKs) increased by 62.7% in 2010, from 13,994 million in 2009 to 22,769 million in 2010. The number of passengers carried on international routes increased by 57.1%, from 4.2 million in 2009 to 6.6 million in 2010. Our passenger-kilometers yield for international routes increased from RMB0.51 per passenger-kilometer in 2009 to RMB0.60 per passenger-kilometer in 2010.

Cargo and mail revenues

Our cargo and mail traffic revenues increased by RMB4,299 million, or 104.2%, from RMB4,124 million in 2009 to RMB8,423 million in 2010, which accounted for 12.5% of our total traffic revenues in 2010. Revenue from cargo and mail traffic via bellyhold cargo space on the Company's passenger aircraft was RMB2,744 million, which accounted for 32.6% of total freight revenue and 4.1% of total traffic revenue in 2010. Cargo and mail yield increased from RMB1.67 in 2009 to RMB1.95 in 2010 per cargo tonne-kilometer, or 16.8% compared to the same period in 2009, primarily as a result of continued growth of import and export activity, which resulted in increased demand for air cargo and mail services, as well as our Company's enhanced market analysis measures, better operating efficiency in these operations and enhanced cooperation with third parties companies.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for 14.9% of our total cargo and mail traffic revenues in 2010, increased by 51.8%, from RMB828 million in 2009 to RMB1,257 million in 2010. This increase was primarily due to increased trade activity in the PRC, resulting in additional demand for cargo and mail services. Our freight tonne-kilometers yield for domestic routes increased from RMB1.13 per tonne-kilometer in 2009 to RMB1.28 per tonne-kilometer in 2010.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for 8.4% of our total cargo and mail traffic revenues in 2010, increased by 101.7%, from RMB350 million in 2009 to RMB706 million in 2010. This increase was primarily due to an increase in our regional cargo and mail traffic as a result of increased regional economic activity, resulting in additional demand for cargo and mail services. Our freight tonne-kilometers yield for regional routes increased from RMB4.13 per tonne-kilometer to RMB4.54 per tonne-kilometer.

International cargo and mail traffic revenues, which accounted for 76.7% of our total cargo and mail traffic revenues in 2010, increased by 119.3%, from RMB2,946 million in 2009 to RMB6,460 million in 2010, due to increased demand for cargo and mail transportation capacity as the global economy recovered from the recession, resulting in an increase in the amount of cargo and mail carried as well as an increase in cargo and mail transportation prices. Our prices for cargo and mail transportation on international routes also increased as our freight tonne-kilometers yield for international routes increased from RMB1.78 per tonne-kilometer in 2009 to RMB2.04 per tonne-kilometer in 2010.

Other revenues

We also generated revenues from other services, including airport ground services, cargo handling services and ticket handling services. These services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao International Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao International Airport and Pudong International Airport. Our total other revenues increased by 210.7%, from RMB2,065 million in 2009 to RMB6,413 million in 2010, as a result of the increase provision of these services in response to increased demand for these services at Hongqiao and Pudong Airports, primarily due to increased flight activity at these airports.

Operating Expenses

The following chart sets forth a breakdown of our operating expenses for the years 2009 and 2010:

	Year Ended December 31,		2010 vs. 2009	
	2010	2009	Increase (decrease)	% increase (decrease)
	(in millions of RMB)			
Operating Expenses:				
Aircraft fuel expenses	21,606	12,255	9,351	76.3 %
Gain on fair value movements of derivatives financial instruments	(833)	(3,775)	2,942	(77.9)%
Takeoff and landing charges	7,455	5,460	1,995	36.5 %
Depreciation and amortization	6,758	5,203	1,555	29.9 %
Wages, salaries and benefits	8,941	5,149	3,792	73.7 %
Office, administration and other	8,588	3,752	3,532	94.1 %
Aircraft maintenance expenses	4,614	3,019	1,595	52.8 %
Aircraft operating lease expenses	3,976	2,518	1,458	57.9 %
Impairment losses for assets	405	109	296	271.6 %
Selling and marketing expenses	3,324	1,978	1,346	68.1 %
Other	3,931	2,788	1,143	41.0 %
Total Operating Expense	68,765	38,456	30,309	78.8 %

Our total operating expenses increased by 78.8%, from RMB38,456 million in 2009 to RMB68,765 million in 2010 primarily due to the significant expansion in the operating scale of our Company upon the absorption of Shanghai Airlines, resulting in increased operational expenses and fees, as well as the increased costs resulting from the substantial increase in aviation fuel prices. Our total operating expenses as a percentage of our revenues decreased from 98.6% in 2009 to 93.2% in 2010.

Aircraft fuel expenses increased by 76.3%, from RMB12,255 million in 2009 to RMB21,606 million in 2010. The increase was primarily due to the expansion of the Company's scale of operations and an increase in the average price of aviation fuel compared to the same period in the previous year. In 2010, we consumed a total of approximately 3.85 million tonnes of aviation fuel, representing an increase of 46.4% compared to 2009. Our weighted average fuel price per tonne in 2010 increased by approximately 20.0% from 2009. Aircraft fuel expenses accounted for 31.4% of our total operating expenses in 2010, as compared to 31.9% in 2009.

Changes in fair value of financial derivatives decreased to a gain of RMB833 million, compared to RMB3,775 million during the same period in 2009. The difference was mainly due to reversal of the fair value of crude oil option contracts resulting from the increase in international crude oil prices in 2009, whereas international oil prices in 2010 were relatively stable and the magnitude of the reversal of fair value of crude oil option contracts were less significant. In 2010, the net gain on change in fair value of crude oil option contracts (inclusive of the factor of cash outflow upon settlement) was approximately RMB800 million. However, we may not be able to experience such similar gains in 2011, as crude oil prices have risen significantly in early 2011. In 2010, the fair value movements of financial derivatives charged to the income statement accounted for 1.2% of our total operating expenses.

Takeoff and landing charges, which accounted for 10.1% of our total operating expenses in 2010, increased by 36.5%, from RMB5,460 million in 2009 to RMB7,455 million in 2010 primarily due to an increase of in the number of take-offs and landings resulting from our increased scale of operations in 2010.

Depreciation and amortization increased by 29.9%, from RMB5,203 million in 2009 to RMB6,758 million in 2010. The increase in depreciation and amortization costs was primarily due to the expansion of the scale of the Company's operations and an increase in the number of our aircraft, as well as new property acquired by our Company at Hongqiao International Airport.

Wages, salaries and benefits, which accounted for 13.0% of our total operating expenses in 2010, increased by 73.7%, from RMB5,149 million in 2009 to RMB8,941 million in 2010, primarily due to the continued expansion of our core businesses.

Office, administration and other expenses increased by 94.1%, from RMB3,752 million in 2009 to RMB7,284 million in 2010 primarily due to the Company's increased in non-aviation business upon the absorption of Shanghai Airlines, which led to an increase in certain costs and expenses.

Aircraft maintenance expenses, which accounted for 6.7% of our total operating expenses in 2010, increased by 52.8%, from RMB3,019 million in 2009 to RMB4,614 million in 2010. The increase was primarily due to an increase in maintenance costs realized by not sending aircraft to foreign countries for maintenance, as the result of an increase in domestic maintenance capacity in China.

Aircraft operating lease expenses increased by 57.9%, from RMB2,518 million in 2009 to RMB3,976 million in 2010. The increase was primarily due to the expansion of the Company's scale upon the absorption of Shanghai Airlines.

Impairment losses for assets increased by 271.6%, from a loss of RMB109 million in 2009 to a loss of RMB405 million in 2010 , primarily as a result of our proposed disposal of certain aircraft and related engines, which resulted in a provision for impairment loss charge of RMB239 million. In an effort to increase the operational efficiency of, and reduce the related maintenance fees for, our fleet, these aircraft and engines were classified as non-current assets held for sale, and the impairment charge was made in accordance with estimated market values.

Selling and marketing expenses, which accounted for 4.8% of our total operating expenses in 2010, increased by 68.1%, from RMB1,978 million in 2009 to RMB3,324 million in 2010. The increase was primarily a result of increases in sales volumes and the number of passengers carried, which led to a corresponding increase in sales agency handling fees.

Other Operating Income and Other Gains

Our other operating income and other gains were primarily generated from government subsidies and gains on disposal of aircraft and relevant assets. The total amount of our other operating income and other gains decreased from RMB1,288 million in 2009 to RMB658 million in 2010 primarily due to the refund of civil aviation infrastructure levies of RMB832 million in 2009. Other government subsidies represent subsidies granted to us by the PRC government and local government as well as other subsidies granted by various local municipalities to encourage our Company to operate certain routes to cities where these municipalities are located.

Finance Costs

Our finance costs decreased by 14.4%, from RMB1,755 million in 2009 to RMB1,502 million in 2010, primarily due to improvement of our debt structure and the decrease in overall LIBOR floating rates from 2009 to 2010. Approximately 67.2% of our indebtedness is U.S. dollar denominated borrowings, which are generally tied to LIBOR rates. In 2010, our finance income was RMB1,155 million, primarily due to the increase in exchange gain resulting from the appreciation of the Renminbi against the U.S. dollar.

Profit / (Loss) attributable to the equity shareholders of the Company

As a result of the foregoing, the net profit attributable to the equity shareholders of the Company increased to RMB4,958 million in 2010, representing a 2,833.7% increase as compared to a net profit of RMB169 million in 2009.

Fixed Assets

Our Company had approximately RMB68,822 million of fixed assets and construction in progress as of December 31, 2010, including, among other assets, aircraft, engines and flight equipment, representing a 21.4% increase from RMB56,704 million in 2009.

B. Liquidity and Capital Resources

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

As of December 31, 2009, 2010 and 2011, we had RMB1,735 million, RMB3,078 million and RMB3,861 million, respectively, in cash and cash equivalents; RMB25,335 million, RMB38,566 million and RMB41,775 million, respectively, in outstanding borrowings; and RMB428 million, RMB1,486 million and RMB278 million, respectively, in restricted bank deposits. Our cash and cash equivalents primarily consist of cash on hand and deposits that are placed with banks and other financial institutions. We plan to use the remaining available cash for other capital expenditures, including expenditures for aircraft, engines and related equipment, as well as for working capital and other day-to-day operating purposes.

As of December 31, 2011, our accumulated losses amounted to approximately RMB8,380 million. In addition, our current liabilities exceeded our current assets by approximately RMB29,679 million. As a consequence, our Directors have taken active steps to seek additional sources of financing to improve our liquidity position. As of December 31, 2011, we had total credit facilities of RMB54.5 billion from various banks, of which RMB35.5 billion are not utilized. See the discussion below under "– Working Capital and Liabilities".

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

Cash Flows from Operating Activities

In 2011, we generated a net cash inflow from operating activities of RMB13,623 million as a result of cash generated from operations of RMB13,781 million less income tax we paid in 2011. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB13,751 million and changes in working capital of RMB30 million. The operating profit before working capital changes of RMB13,751 million was a result of the profit before income tax of RMB4,841 million, mainly adjusted for: (i) depreciation of property, plant and equipment of RMB6,912 million, (ii) interest expenses of RMB1,463 million, (iii) consumption of flight equipment spare parts of RMB 740 million, (iv) provision for return condition checks for aircraft and engines under operating leases of RMB695 million and (v) impairment loss of RMB638 million, partly offset by net foreign exchange gains of RMB1,872 million. Changes in working capital mainly consisted of (i) an increase in other payables and accrued expenses of RMB1,681 million, (ii) an increase in prepayments, deposits and other receivables of RMB668 million and (iii) an increase in sales in advance of carriage of RMB620 million. These negative changes were partly offset by (i) a decrease in trade payables and notes payables of RMB1,602 million, (ii) a decrease in flight equipment and spare parts of RMB1,023 million and (iii) a decrease in provision for return condition checks for aircraft and engines under operating leases of RMB317 million.

In 2010, we generated a net cash inflow from operating activities of RMB10,641 million as a result of cash generated from operations of RMB10,740 million less income tax we paid in 2010. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB13,585 million and negative changes in working capital of RMB2,845 million. The operating profit before working capital changes of RMB13,585 million was a result of the profit before income tax of RMB5,418 million, mainly adjusted for: (i) depreciation of property, plant and equipment of RMB6,727 million, (ii) interest expenses of RMB1,502 million, (iii) consumption of flight equipment spare parts of RMB601 million, and (iv) provision for return condition checks for aircraft and engines under operating leases of RMB586 million, partly offset by (i) net foreign exchange gains of RMB1,075 million and (ii) gains arising from fair value movements of derivative financial instruments of RMB915 million. Negative changes in working capital mainly consisted of (i) a decrease in trade payables and notes payables of RMB3,418 million, (ii) a decrease in flight equipment and spare parts of RMB777 million and (iii) a decrease in provision for return condition checks for aircraft and engines under operating leases of RMB306 million. These negative changes were partly offset by (i) an increase in sales in advance of carriage of RMB847 million and (ii) an increase in other long-term liabilities of RMB570 million.

In 2009, we generated a net cash inflow from operating activities of RMB3,429 million as a result of our cash generated from operations of RMB3,507 million less income tax we paid in 2009. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB3,198 million and positive changes in working capital of RMB310 million. The operating profit before working capital changes of RMB3,198 million was a result of the profit before income tax of RMB249 million, mainly adjusted for (i) depreciation of property, plant and equipment of RMB5,177 million, (ii) interest expenses of RMB1,755 million, (iii) provision for return condition checks for aircraft and engines under operating leases of RMB589 million and (iv) provision for post-retirement benefits of RMB441 million, partly offset by unrealized gains arising from fair value movements of financial derivatives of RMB5,334 million. Positive changes in working capital mainly consisted of (i) an increase in trade payables and notes payables of RMB1,021 million, (ii) an increase in prepayments, deposits and other receivables of RMB540 million, and (iii) an increase in sales in advance of carriage of RMB406 million. These positive changes were partly offset by (i) a decrease in other payables and accrued expenses of RMB482 million, (ii) a decrease in flight equipment and spare parts of RMB466 million and (iii) a decrease in provision for return condition checks for aircraft and engines under operating leases of RMB275 million.

Cash Flows from Investing Activities

In 2011, our net cash outflow from investing activities was RMB14,939 million. Our net cash outflow for investing activities mainly consisted of (i) additions of property, plant and equipment of RMB5,368 million, primarily due to the purchase of 24 aircraft in 2011, (ii) advanced payments on acquisition of new aircraft of RMB8,180 million, and (iii) payment of short-term deposits with original maturity over three months of RMB1,963 million. These cash outflows were partly offset by (i) proceeds from disposal of non-current assets held for sale of RMB412 million and (ii) bank deposit interest received of RMB147 million.

In 2010, our net cash outflow from investing activities was RMB8,633 million. Our net cash outflow for investing activities mainly consisted of (i) additions of property, plant and equipment of RMB6,523 million, primarily due to the purchase of 25 aircraft in 2010, (ii) advanced payments on acquisition of new aircraft of RMB3,462 million, and (iii) payment of short-term deposits with original maturity over three months of RMB434 million. These cash outflows were partly offset by (i) net cash acquired through acquisition of Shanghai Airlines Co., Ltd, (ii) proceeds from disposal of non-current assets held for sale of RMB430 million and (iii) proceeds from disposal of property, plant and equipment of RMB102 million.

In 2009, our net cash outflow from investing activities was RMB7,236 million. Our net cash outflow from investing activities mainly consisted of (i) additions of property, plant and equipment of RMB5,685 million, primarily due to the purchase of 17 new aircraft and (ii) advanced payments on acquisition of new aircraft of RMB1,927 million. These cash outflows were partly offset by (i) proceeds from disposal of interests in an associate, Joy Air, of RMB210 million and (ii) bank deposit interest received of RMB110 million.

Cash Flows from Financing Activities

In 2011, our net cash inflow from financing activities was RMB2,136 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB19,647 million, (ii) proceeds from draw down of long-term bank loans of RMB5,693 million, (iii) proceeds from issuance of bonds of RMB2,490 million, (iv) Receipts of restricted bank deposits of RMB1,109 million and (v) capital contribution from non-controlling interests of subsidiaries of RMB1,005 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB18,514 million, (ii) repayments of long-term bank loans of RMB5,245 million and (iii) principal repayments of financial lease obligations of RMB2,191 million.

In 2010, our net cash outflow from financing activities was RMB652 million. Our net cash outflow for financing activities mainly consisted of (i) repayments of short-term bank loans of RMB21,943 million, (ii) repayments of long-term bank loans of RMB6,527 million and (iii) principal repayments of financial lease obligations of RMB2,201 million. These cash outflows were partly offset by (i) proceeds from draw down of short-term bank loans of RMB20,803 million and (ii) proceeds from draw down of long-term bank loans of RMB11,556 million.

In 2009, our net cash inflow from financing activities was RMB2,086 million. Our net cash inflow from financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB28,537 million, (ii) proceeds from the issuance of new A and H shares of RMB14,056 million in separate placements of such shares, which were completed on December 23, 2009 and (iii) proceeds from draw down of long-term bank loans of RMB10,823 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB39,535 million and (ii) repayments of long-term bank loans of RMB9,522 million. Proceeds from the issuance of new shares in 2009 were used to repay a portion of our bank loans.

Working Capital and Liabilities

We have, and in the future may continue to have, substantial debts. In addition, we generally operate with a working capital deficit. As of December 31, 2011, our current liabilities exceeded our current assets by RMB29,679 million. In comparison, our current liabilities exceeded our current assets by RMB27,184 million as of December 31, 2010. The increase in our current liabilities in 2011 was primarily due to the increase in the current portion of borrowings and an increase in the other payables and accrued expenses, partially offset by a decrease in the trade payables and notes payable. The increase in our current assets in 2011 was primarily due to an increase in cash and cash equivalents. Short-term loans outstanding totaled RMB11,193 million and RMB11,454 million as of December 31, 2010 and 2011, respectively. Long-term outstanding bank loans totaled RMB27,373 million and RMB30,321 million as of December 31, 2010 and 2011, respectively.

As of December 31, 2011, our long-term debt to equity ratio was 0.81 to 1. The interest expenses associated with these debts may impair our future profitability. We expect that cash from operations and bank borrowings will be sufficient to meet our operating cash flow requirements, although events that materially and adversely affect our operating results can also have a negative impact on liquidity.

Our consolidated interest-bearing borrowings as of December 31, 2010 and 2011 for the purpose of calculating the indebtedness of our Company, were as follows:

	As of December 31	
	2010	2011
	(RMB in millions)	
Secured bank loans	16,444	14,185
Unsecured bank loans	22,122	27,590
Total	38,566	41,775

The maturity profile of interest-bearing borrowings of our Company as of December 31, 2010 and 2011 was as follows:

	As of December 31	
	2010	2011
	(RMB in millions)	

Within one year	15,211	18,171
In the second year	6,162	8,408
In the third to fifth year inclusive	10,672	9,392
After the fifth year	6,521	5,804
Total	38,566	41,775

As of December 31, 2011, our interest rates relating to short-term borrowings ranged from 1.3% to 6.3%, while our fixed interest rates on our interest-bearing borrowings for long-term bank loans ranged from 4.86% to 6.4%. Our bank loans are denominated in Renminbi, U.S. dollars and Euro. As of December 31, 2011, our total bank loans denominated in Renminbi amounted to RMB14,280 million, while our total bank loans denominated in U.S. dollars amounted to USD3,967 million. On August 11, 2011, our wholly-owned subsidiary Eastern Air Overseas (Hong Kong) Corporation Limited issued offshore CNY-denominated bonds in an amount of CNY2.5 billion at 4% due 2014, listed on the SGX-ST. Our Company guaranteed the bond issue. See Note 31 to the consolidated financial statements for more information on our borrowings.

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

Capital Expenditures

As of December 31, 2011, according to the relevant agreements, we expect our capital expenditures for aircraft, engines and related equipment to be in aggregate approximately RMB108,298 million, including RMB17,935 million in 2012 and RMB22,249 million in 2013, in each case subject to contractually stipulated increases or any increase relating to inflation. We plan to finance our other capital commitments through a combination of funds generated from operations, existing credit facilities, bank loans, leasing arrangements and other external financing arrangements.

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

None.

D. Trend Information

Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2011 to December 31, 2011 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance Sheet Arrangements

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

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

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

.

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

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations and Commercial Commitments

The following tables set forth selected information regarding our outstanding contractual and commercial commitments as of December 31, 2011:

	Total	Less Than 1 Year	1-2 Years	2-5 Years	More Than 5 Years
Long-Term Debt[1]	30,321	6,717	8,408	9,391	5,805
Capital Leases [2]	20,261	2,459	2,558	7,235	8,009
Operating Leases [3]	24,479	3,992	3,758	8,592	8,137
Unconditional Purchase Obligations[4]	108,298	17,935	22,249	68,114	—
Other Long-term Obligations [5][6]	2,048	—	—	—	—
Post-retirement Benefit Obligations [5]	2,943	—	—	—	—
Deferred Tax Liabilities [5]	29	—	—	—	—
Short-term Bank Loans[7]	11,454	11,454	—	—	—
Interest Obligations	4,285	1,290	841	1,263	891
Under Finance Leases	1,662	332	289	601	440
Under Bank Loans	2,623	958	552	662	451
Fixed Rate	372	168	103	101	-
Variable Rate [8]	2,251	790	449	561	451
Total	204,118	43,847	37,814	94,595	22,842

(1) Excludes interest.

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

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

(4) Primarily comprise capital expenditures.

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

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

(7) Short-term bank loans are generally repayable within one year. As of December 31, 2011, the weighted average interest rate of our short-term bank loans was 4.6% per annum (2010: 4.08%).

(8) For our variable rate loans, interest rates range from three month LIBOR + 0.25% to six months LIBOR + 3.5%. Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2011. A 25 basis points increase in the interest rate would increase interest expenses by RMB88 million.

Other Commercial Commitments/Credit Facilities	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(RMB in millions)				
Lines of Credit	35,503	26,803	8,700	—	—
Standby Letters of Credit	—	—	—	—	—
Guarantees	—	—	—	—	—
Total	35,503	26,803	8,700	—	—

Critical Accounting Estimates and Judgments

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

Estimated impairment of property, plant and equipment and intangible assets

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

Fair value of assets held for sale

Assets held for sale are stated the lower of carrying amount and fair value less costs to sell in accordance with the accounting policy stated in Note 2(n) to the financial statements. The fair value of non-current assets has been determined by reference to the estimated market value and/or available price quotes provided by the potential buyers.

Revenue recognition

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

Frequent flyer program

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

Depreciation of property, plant and equipment

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

Except for components related to airframe and engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

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

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

Retirement benefits

The Group operates and maintains defined retirement benefit plans which provide retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employees' service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in Note 2(x) to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employees' turnover rate. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payments is based on the general local economic conditions. The employees' turnover rate is based on historical trends of the Group. Additional information regarding the retirement benefit plans is disclosed in Note 35 to the financial statements.

Deferred income tax

In assessing the amount of deferred tax assets that need to be recognized in accordance with the accounting policy stated in Note 2(j) to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilize the tax benefits of net operating loss carry forwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made. Additional detailed information is disclosed in Note 34 to the financial statements.

Valuation of acquisition price

The Company issued its A shares to effect the acquisition of Shanghai Airlines during the year ended December 31, 2010. The fair value of the shares at the acquisition date is determined based on the quoted market price of the Company's share issued as of the date closest to the acquisition date with adjustments to reflect restrictions specific to certain shares issued. Significant assumptions were used when made adjustments for the value of those restricted shares.

Purchase price allocation for business combination

Accounting for business acquisitions require the Group to allocate the cost of the acquisition to the specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the acquisition of Shanghai Airlines, the Company undertakes a process to identify all assets and liabilities acquired, including any identified intangible assets where appropriate. The judgements made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as assets useful lives, may materially impact the Group's financial position and results of operation. In determining the fair values of the identifiable assets acquired and liabilities assumed, a valuation was conducted by an independent valuer and estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.

There are several methods that can be used to determine the fair value of assets acquired and liabilities assumed. The purchase accounting adjustment relate primarily to the aircraft and engines and land use right which is valued by using market value approach.

Taxation

We had carried forward tax losses of approximately RMB9,713 million as of December 31, 2011, which can be used to set off against future taxable income between 2012 and 2016.

Prior to 2008, the Company and certain of its subsidiaries located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong District, Shanghai. Under China's EIT Law, which was approved by the National People's Congress on March 16, 2007 and became effective from January 1, 2008, the Company and its Pudong subsidiaries are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to 25% over the next five years from 2008. For the year ended December 31, 2011, the corporate income tax rate applicable to the Company and these subsidiaries was 24%. The net deferred tax position of the Company and its subsidiaries as of December 31, 2011 is insignificant and the change in tax rate has no material impact on our deferred tax position. Except for those subsidiaries that are incorporated in Hong Kong and therefore subject to a Hong Kong corporate income tax rate of 16.5%, other subsidiaries of the Company are generally subject to the PRC standard income tax rate of 25%.

Inflation

In recent years, China has been experiencing increasing levels of inflation. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, increased by approximately 3.3% in 2010 and 5.4% in 2011. Although neither inflation nor deflation in the past had any material adverse impact on our results of operations, we cannot assure you that the deflation or inflation of the Chinese economy in the future would not materially and adversely affect our financial condition and results of operations.

New Pronouncements

The following standards, amendments and interpretations to existing standards, which have been published and are relevant to our Company's operations, are mandatory for accounting periods beginning on or after January 1, 2011 or later periods. These new/revised standards and interpretations were not expected to have material impact on the Group's or the Company's financial statements.

- IAS 19 (Amendment) (effective from 1 January 2013)

- IFRS 7 (Amendment) "Financial instruments: Disclosures' on derecognition" (effective from 1 July 2011)
- IFRS 9 'Financial Instruments' (effective from January 1, 2013)
- IFRS 10 "Consolidated financial statements" (effective from 1 January 2013)
- IFRS 13 "Fair value measurement" (effective from 1 January 2013)

G. Safe Harbor

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

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

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

Name	**Age**	**Shares Owned** [(1)]	**Position**
Liu Shaoyong	53	-	Chairman of the Board of Directors
Ma Xulun	48	-	Director and Vice Chairman
Li Yangmin	49	3,960 A Shares	Director and Vice President
Luo Zhuping	59	11,616 A Shares	Director and Company Secretary
Sandy Ke-Yaw Liu	64	-	Independent Non-executive Director
Wu Xiaogen	46	-	Independent Non-executive Director
Ji Weidong	55	-	Independent Non-executive Director
Shao Ruiqing	55	-	Independent Non-executive Director
Yu Faming	58	-	Chairman of the Supervisory Committee
Yan Taisheng	58	-	Supervisor
Feng Jinxiong	50	-	Supervisor
Liu Jiashun	55	3,960 A Shares	Supervisor
Tang Bing	45	-	Vice President
Shu Mingjiang	44	-	Vice President
Wu Yongliang	49	3,696 A Shares	Vice President and Chief Financial Officer
Tian Liuwen	53	-	Vice President
Wang Jian	39	-	Board Secretary and Joint Company Secretary
Ngai Wai Fung	50	-	Joint Company Secretary

Directors

Mr. Liu Shaoyong is currently the Chairman of the Company and general manager and deputy party secretary of CEA Holding. Mr. Liu joined the civil aviation industry in 1978 and was appointed deputy general manager of China General Aviation Corporation, deputy director of Shanxi Provincial Civil Aviation Administration, general manager of the Shanxi Branch of the Company, and Head of the Flying Model Division of the CAAC. Mr. Liu served as General Manager of the Company from December 2000 to October 2002, vice minister of the CAAC from October 2002 to August 2004, general manager of China Southern Air Holding Company from August 2004 to December 2008, chairman of directors of China Southern Airlines Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from November 2004 to December 2008. Since December 2008, Mr. Liu has been appointed as general manager and deputy party secretary of CEA Holding, and became the Chairman of the Company since February 3, 2009. Mr. Liu graduated from the China Civil Aviation Flight College and obtained an executive masters of business administration (EMBA) degree from Tsinghua University. Mr. Liu holds the title of command pilot. He is currently the Director General of China Air Transport Association, the Director of International Air Transport Association and the Director of Association for Relations Across the Taiwan Straits.

Mr. Ma Xulun is currently the Vice Chairman, President and deputy party secretary of the Company, and deputy party secretary of CEA Holding. Mr. Ma joined the civil aviation industry in 1997. He was previously deputy general manager of China Commodities Storing and Transportation Corporation. He was appointed as deputy director general of the Finance Department of the CAAC and vice president of Air China International Corporation Limited. In 2002, after the restructuring of civil aviation industry he was appointed as vice president of general affairs of Air China International Corporation Limited. Later on, Mr. Ma served as president and deputy party secretary of Air China

International Corporation Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange) from September 2004 to January 2007. Mr. Ma became a party member of China National Aviation Holding Company from December 2004 to December 2008, and deputy general manager of China National Aviation Holding Company from January 2007 to December 2008. Since December 2008, Mr. Ma was also President and Deputy Party Secretary of the Company and deputy party secretary of CEA Holding. Since February 2009, Mr. Ma has become a Director of the Company. From January 2009 to February 2012, Mr. Ma served as chairman of China Cargo Airlines, a subsidiary of the Company, and chairman of Shanghai Airlines, a subsidiary of the Company, from January 2010 to January 2012. Mr. Ma was appointed as party secretary of CEA Holding and Vice Chairman of the Company with effect from November 2011. Mr. Ma graduated from Shanxi University of Finance and Economics and Huazhong University of Science and Technology. Mr. Ma holds a masters degree and is a qualified accountant.

Mr. Li Yangmin is currently a Director, Party Secretary, Vice President and Safety Director of the Company and party committee member of CEA Holding. Mr. Li joined the civil aviation industry in 1985. He was previously deputy head of the aircraft maintenance workshop, head of technology office, secretary of the workshop branch of Northwest Company and deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company. From June 2002 to March 2004, he was general manager of the aircraft maintenance base of China Eastern Air Northwest Company. From March 2004 to October 2005, he was vice president of China Eastern Air Northwest Company. Since October 2005, he has also been a Vice President of the Company. He was appointed Safety Director of the Company in July 2010, party committee member of CEA Holding in May 2011 and Party Secretary and Director of the Company in June 2011. From September 2010 to January 2012, Mr. Li served as the director of Shanghai Airlines, a subsidiary of the Company. Since February 2012, he was appointed as the chairman of China Cargo Airlines, a subsidiary of the Company. Mr. Li graduated from Northwestern Polytechnical University with a masters degree. He is a qualified senior engineer.

Mr. Luo Zhuping is currently a Director of the Company. Mr. Luo joined CEA in 1988. He was Deputy Chief and then Chief of the Enterprise Management Department and Deputy Head of the Share System Office of China Eastern Airlines. From 1997 to 2008, he served as the head of the Board secretariat of the Company. From 1997 to April 2012, he served as the secretary to the Board (the "Board Secretary") and the company secretary of the Company (the "Company Secretary"). He became a Director of the Company in June 2004. Mr. Luo graduated from the Faculty of Philosophy and the Faculty of Law of Anhui University in 1979 and 1985, respectively. In 1994, Mr. Luo received a masters degree in global economics from Eastern China Normal University. In 1998, he participated in the training programme for senior managers of large state-owned enterprises organised in the U.S. by the State Economic and Trade Commission and Morgan Stanley. Mr. Luo has been responsible for domestic and overseas exchange listing and capital management of the Company since 1993. He has gained rich experience in certain value-added measures of an enterprise, such as enterprise reform, stock issuance, corporate governance, merger and acquisition and reorganization.

Mr. Sandy Ke-Yaw Liu was appointed as an Independent Non-executive Director of the Company in June 2009. Mr. Liu joined the civil aviation industry in Taiwan in 1969. He served in China Airlines in various capacities, including airport manager in Honolulu Airport, marketing director for the Americas, general manager for Hawaii District, regional director for Europe, director of corporate planning and director of marketing planning in its Corporate Office in Taiwan. With China Airlines, he also served as vice president for marketing and sales in 1993 and vice president for commerce since 1996, and was promoted to president in 1998. Additionally, Mr. Liu served as a director of Taiwan Mandarin Airlines, Taiwan Far Eastern Air Transport, Taiwan China Pacific Catering Service and Taiwan Taoyuan International Airport Service Company, as well as chairman of the board of Taiwan Air Cargo Terminal. In 2001, he relocated to Hong Kong to join Expeditors International of Washington, Inc., a global logistics company, as chief operating officer for the Asia Region. Mr. Liu graduated from Taiwan Shih Hsin University and attended advanced study programmes at Stanford University in 1990 and 1993.

Mr. Wu Xiaogen was appointed as an Independent Nonexecutive Director of the Company in March 2010. Mr. Wu previously served as assistant to the general manager and deputy general manager of the securities department of China Jingu International Trust Investment Company Limited, and deputy general manager of the securities management department and general manager of the institutional management department of China Technology International Trust Investment Company. From July 2000 to November 2004, he was head of the audit teaching and research unit and deputy dean of the School of Accountancy of Central University of Finance and Economics. He was chief accountant of China First Heavy Industries from November 2004 to June 2010. He has been a professional external director for central enterprises since June 2010 and holds the title of researcher. Mr. Wu is also a director and a member of the Ethics Committee of the Chinese Institute of Certified Public Accountants, an independent director of China Petroleum & Chemical Corporation (a company listed on the Hong Kong Stock Exchange) and an external director of China Three Gorges Corporation. Mr. Wu graduated from the Department of Economics and Management of the Central University of Finance and Economics and also obtained a doctoral degree in economics.

Mr. Ji Weidong was appointed as an Independent Nonexecutive Director of the Company in March 2010. Mr. Ji graduated from the Department of Law of Peking University in 1983 and obtained a bachelor's degree in law. Mr. Ji completed his masters and doctoral degree courses at the Graduate School of Kyoto University, Japan from April 1985 to March 1990. From September 1991 to July 1992, he was a visiting scholar at Stanford Law School. He obtained his doctoral degree from Kyoto University, Japan in January 1993. From April 1990 to September 1996, Mr. Ji was an associate professor at the School of Law of Kobe University, Japan. From October 1996 to March 2009, he was a professor at the School of Law of Kobe University, Japan. Since 2008, he has been the dean and professor of Koguan Law School of Shanghai Jiaotong University. He is also currently an honorary professor at Kobe University, Japan.

Mr. Shao Ruiqing was appointed as an Independent Nonexecutive Director of the Company in June 2010. Mr. Shao is currently a deputy dean, professor in accounting and mentor to doctoral students at Shanghai Lixin University of Commerce. He was deputy dean and dean of the School of Economics and Management of Shanghai Maritime University. From March 2004 to date, he has been deputy dean of Shanghai Lixin University of Commerce. Mr. Shao graduated from Shanghai Maritime University, Shanghai University of Finance and Economics and Tongji University with a bachelor degree in economics, and masters and doctoral degrees in management. Mr. Shao has been engaged in the teaching, research and practice of the accounting profession for an extensive amount of time, and has spent two and a half years studying and being senior visiting scholar in the U.K. and Australia. He is well-versed and experienced in internal control, IFRS and risk management standards for foreign enterprises. Mr. Shao was awarded the Special Allowance by the State Council of the PRC in 1995. Mr. Shao is an independent director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange). He is currently a consultative committee member of the Ministry of Communications of the PRC, as an expert in finance and accounting.

Mr. Li Jun was Vice Chairman of the Company and party secretary and deputy general manager of CEA Holding during the Reporting Period. Mr. Li joined the civil aviation industry in 1972 and served as officer in the political department and office secretary of CAAC, person-in-charge of Policy Research Department in CAAC, deputy director of Policy Research Department in CAAC, deputy manager and manager of Planning Department in CAAC, director of the General Office in CAAC and manager of Personnel Education Department in CAAC. From May 2001 to September 2006, he served as deputy head and party committee member of CAAC. From September 2006 to November 2011, Mr. Li served as party secretary and deputy general manager of CEA Holding. From June 2007 to November 2011, he served as Vice Chairman of the Company. Mr. Li ceased to act as Vice Chairman and Director of the Company since November 2011 due to his other professional commitments. Mr. Li graduated from the Party School of the Central Committee of the C.P.C. and holds a bachelor degree in economic management and is a qualified senior economist and senior political work instructor.

Mr. Luo Chaogeng was a Director of the Company and deputy general manager of CEA Holding during the reporting period. Mr. Luo joined the civil aviation industry in 1970 and served as flight mechanic of the instructing team of the Lanzhou Civil Aviation Administration, flight mechanic and vice instructor of the 8th Civil Aviation Flight Team, deputy commissar and commissar of the Xi'an Flight Team of China Northwest Airlines, deputy general manager of the aircraft maintenance base of China Northwest Airlines, deputy director of the Northwest Civil Aviation Administration, general manager of Yunnan Airlines and director of Yunnan Provincial Civil Aviation Administration. From November 2001 to September 2002, he was general manager of Yunnan Airlines. From September 2002 to September 2004, he was a party member and deputy general manager of CEA Holding and general manager of Yunnan Airlines of CEA Holding. From September 2004 to October 2006, he was President of the Company. From September 2004 to May 2011, he was a party member and deputy general manager of CEA Holding. Mr. Luo served as a non-executive director of TravelSky Technology Limited (a company listed on the Hong Kong Stock Exchange) from March 3, 2009. Mr. Luo has ceased to act as Director of the Company since June 2011 due to his retirement. From September 1998 to June 2001, Mr. Luo attended the postgraduate course in economics and management for incumbent leading cadres of Shaanxi Province at the Central Party School. Mr. Luo has been recognized as possessing first class competency in flight mechanics.

Supervisory Committee

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

Mr. Yu Faming is currently the chairman of the Supervisory Committee of the Company and party member and head of party disciplinary inspection group of CEA Holding. Mr. Yu served as cadre of the Scientific Research Institute, cadre of the office secretariat and deputy director of the Survey and Research Department of the Policy Research Office of the Ministry of Labour and Human Resources of the PRC, head of the Integration Division of the Department of Policy and Regulation of the Ministry of Labour of the PRC, manager and deputy general manager of the Integrated Planning Department of China Star Corporation, deputy head of the Labour Science Research Institute of the Ministry of Labour of the PRC, deputy head and head of the Labour Science Research Institute of the Ministry of Labour Protection of the PRC. From March 2002 to June 2008, he served as head of the Training and Employment Department of the Ministry of Labour Protection of the PRC. From June 2008 to May 2011, he served as head of the Employment Department of the Ministry of Human Resources and Social Security of the PRC. Since May 2011, he has been party member and head of party disciplinary inspection group of CEA Holding. Since June 2011, he has served as the Chairman of the Supervisory Committee of the Company. Mr. Yu graduated from Shandong University majoring in philosophy. He holds the title of associate research fellow.

Mr. Yan Taisheng is currently a Supervisor and the Vice Chairman of the Labour Union of the Company. Mr. Yan joined the civil aviation industry in 1973, and served in the Command Centre and the General Office of Shanghai Civil Aviation Administration. He served as Chief of the Board Secretariat of the General Office of the China Eastern Airlines Company, manager of Shanghai Civil Aviation Dong Da Industry Company and Deputy Director of the

General Office of the Labour Union of the Company. From 2002 to 2005, he served as Director of the General Office of Labour Union of the Company. He has been Vice Chairman of the Labour Union and Director of the General Office of the Labour Union of the Company since 2005. He has been a Supervisor of the Company since March 2009. Mr. Yan graduated from East China Normal University.

Mr. Feng Jinxiong is currently a Supervisor and General Manager of the Audit Department of the Company. Mr. Feng joined the civil aviation industry in 1982, and served in the Planning Department of Shanghai Civil Aviation Administration as well as the Planning Department of the Company. He was Deputy Director and Director of the Planning Department of the Company, director of the Finance Department of CEA Holding, deputy chief accountant of CEA Holding and Manager of the Human Resources Department of the Company. He served as vice president of China Eastern Air Jin Rong Company from 2003 to 2005, deputy general manager of the Shanghai Ground Service Department of the Company from 2005 to 2007, as well as president of the China Eastern Airlines Wuhan Co., Ltd. from 2007 to 2009. Since February 2009, he has been General Manager of the Audit Department of the Company. He has been a Supervisor of the Company since March 2009. Mr. Feng graduated from the Civil Aviation University of China and the Graduate School of the Chinese Academy of Social Sciences, holding a masters degree.

Mr. Liu Jiashun is currently a Supervisor of the Company. He served as party secretary, deputy president and secretary of the disciplinary committee of China Aviation Fuel Hainan Company, chairman of the board and president of Hainan Nanyang Air Transport Co., Ltd., chief director in charge of fuel supply engineering at Haikou's Meilan Airport, a director of Meilan Airport Co., Ltd., and vice chairman of the board and president of Meiya Company. From 1999 to 2007 he was deputy party secretary, and subsequently the secretary of the disciplinary committee of China Aviation Fuel East China Company, and served as the general manager of Shanghai Pudong Airport Fuel Co., Ltd. from 2006 to March 2009. Since October 2009, Mr. Liu has served as party secretary of China Aircraft Fuel Huadong Company. Mr. Liu has been a Supervisor of the Company since 2000. Mr. Liu was awarded a postgraduate qualification and is qualified as a senior political work instructor.

Senior Management

Mr. Liu Jiangbo was the chairman of the Supervisory Committee of the Company, and party member, deputy general manager and head of disciplinary inspection group of CEA Holding during the Reporting Period. Ms. Liu joined the civil aviation industry in 1979 and served as an officer in the Beijing Civil Aviation Administration and deputy secretary of the committee of C.P.C. of the transportation business division, secretary of the committee of the Communist Youth League of the National Civil Aviation, deputy director of the personnel department of the Air Traffic Control Bureau of the PRC, supervisor to the CAAC appointed by the Ministry of Supervision of the PRC, deputy director of the transportation division of CAAC and vice president of Yunnan Airlines Corporation Limited. She served as a party member, deputy general manager and head of the disciplinary examination committee of CEA Holding from October 2002 to May 2011. Ms. Liu has ceased to act as the Chairman of the Supervisory Committee and Supervisor of the Company since June 2011 due to retirement. Ms. Liu graduated from the Graduate School of Chinese Academy of Social Sciences, majoring in business management of industrial economics. She was awarded the postgraduate qualification and is qualified as a senior political work instructor.

Mr. Xu Zhao was a Supervisor of the Company during the Reporting Period and is currently a candidate for Director of the Company and the chief accountant of CEA Holding. Mr. Xu served as engineer and accountant of Dongfeng Motor Group Company Limited, manager of the finance department of Shanghai Yanhua High Technology Limited Company and chief financial officer of Shaanxi Heavy Duty Automobile Co., Ltd. Since November 2006, Mr. Xu has served as chief accountant of CEA Holding. He was a Supervisor of the Company from June 2007 to November 2011. Mr. Xu was appointed as an independent non-executive director of Yingde Gases Group Company Limited, a company listed on the Hong Kong Stock Exchange, with effect from September 2009. Mr. Xu has been recommended as a candidate for Director of the Company and has ceased to act as a Supervisor of the Company since November 2011. Mr. Xu graduated from Chongqing University, majoring in moulding, and the Chinese University of Hong Kong, majoring in accounting, and holds a masters degree. Mr. Xu is qualified as an engineer and an accountant, and is a certified public accountant in the PRC.

Mr. Tang Bing is currently a Vice President of the Company and party member of CEA Holding. Mr. Tang joined the civil aviation industry in 1993. He served as deputy manager of the Engineering Technology Division under the Aircraft Engineering Department of China Southern Airlines Company Limited, deputy director of the Business Development Department of Guangzhou Aircraft Maintenance Engineering Co., Ltd., and vice director of its Accessories Business Centre. From June 2003 to December 2005, he was vice president of MTU Maintenance Zhuhai Co., Ltd.. From December 2005 to March 2007, he served as office director of China Southern Airlines Holding Company. From March 2007 to December 2007, he was the president of Chongqing Airlines Company Limited. From December 2007 to May 2009, he served as chief engineer and general manager of the Aircraft Engineering Department of China Southern Airlines (a company listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange). From May 2009 to December 2009,